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FINAL REPORT OF THE COMMITTEE ON INDUSTRY AND TRADE

Presented by the President of the Board of Trade to Parliament by Command of His Majesty
March, 1929

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COMMITTEE ON INDUSTRY AND TRADE.

INSTRUMENT OF APPOINTMENT.

Whereas it has been represented to me, the Right Honourable James Ramsay MacDonald, Prime Minister, First Lord of the Treasury and Secretary of State for Foreign Affairs, by the President of the Board of Trade, that it is desirable to inquire into the conditions and prospects of British industry and commerce, with special reference to the export trade ;

Now I, therefore, do hereby appoint the following persons * to form a Committee to inquire into and report upon the aforesaid matters, and to make recommendations in regard thereto :—

Sir ARTHUR BALFOUR, K.B.E. (*Chairman*).
Mr. JOHN BAKER.
* Sir WILLIAM BEVERIDGE, K.C.B.
Mr. HENRY BOOTHMAN.
Mr. J. T. BROWNLIE, C.B.E.
Mr. W. T. CHARTER.
Mr. C. T. CRAMP.
* Mr. HUGH DALTON, D.Sc.
Sir HARRY GOSCHEN, K.B.E.
Mrs. M. A. HAMILTON.
Mr. F. A. HARGREAVES.
Sir NORMAN HILL, Bart.
Sir JOHN S. HINDLEY.
Mr. DAVID LANDALE.
Sir W. CLARE LEES, O.B.E.
* Mr. P. J. PYBUS, C.B.E.
Mr. ARTHUR SHAW.
Sir ALLAN SMITH, K.B.E.
Sir HUBERT LLEWELLYN SMITH, G.C.B.

I further appoint Mr. W. Carter to be Secretary and Mr. A. R. Fraser and Mr. W. L. Buxton to be Assistant Secretaries to the said Committee.

(Signed) J. RAMSAY MACDONALD.

28th July, 1924.

* The members whose names are marked with an asterisk subsequently found it necessary to resign, and the following additional members were appointed :—

Sir WILLIAM ASHLEY, Ph.D. (appointed 2nd December, 1924, died 23rd July, 1927).

Sir W. PETER RYLANDS (appointed 30th April, 1925).

MEMORANDUM ACCOMPANYING TERMS OF REFERENCE.

The scope of the terms of reference is regarded as being on the general lines set out in the three following paragraphs, which are intended as explanatory of the subjects on which investigation is specially desired and not as an exhaustive definition of the inquiry :—

"The first question to which the attention of the Committee should be directed is the present position of British overseas trade and the prospect of British participation in the markets of the world being such as to ensure sufficient and continuous employment and a satisfactory standard of living in this country. The examination of tendencies and developments in the markets of the world and also in the chief competing countries will be involved, together with an inquiry into the growth of competition with British goods in these markets, the likelihood of its continuance, and its probable consequences.

"The second question is the ability of British industry to meet competition under the conditions thus determined and to adapt itself to changes in the nature of overseas demand. This involves an inquiry into British productive capacity and organisation, including the supply and efficiency of capital, labour and management, the present and future adequacy of raw materials and possible improvements in their utilisation, and the part played by the United Kingdom in new developments of industry, particularly those which are the outcome of scientific research. Matters to which attention might be directed are the present extent of large-scale production, its possibilities and limitations; the efficiency of plant and equipment; power supply and transport as factors in cost of production; marketing organisation at home and abroad; and the current methods of industrial and commercial finance. It will be necessary, in addition, to take account of the effect of State regulative action upon costs and output.

"The third question is that of the relations between those engaged in production. This will involve inquiry into methods of industrial remuneration, the main causes of unrest and disputes, and the methods of avoidance or settlement of disputes, as, for example, co-partnership, co-operation, Wages Boards and voluntary arbitration, State regulation of wages, and compulsory arbitration and compulsory enforcement and extension of agreements."

(34053) Wt. 12974/85 5000 3/29 Harrow G 71

NOTE.

The estimated gross expenditure on account of the Committee from the date of appointment (28th July, 1924) to the date of signing the Report (29th January, 1929) is shown in the following table, which also shows the main items in the total :—

	£	s.	d.
Shorthand writing, travelling and subsistence expenses of witnesses and members, and other incidental expenses	2,685	5	6
Salaries of Committee's staff and of officers lent by Government Departments for special duties (to 31st January, 1929)	20,970	8	4
Printing, stationery, books, etc. (including cost of printing and publishing Committee's previous volumes,* but not the present Report) ..	6,166	10	0
Cost of printing and publishing Report	465	15	2
	30,287	19	0
Amount recovered up to 31st January, 1929, by the sale of the Committee's previous volumes..	4,550	8	0
Estimated net cost	£25,737	11	0

This amount will be further reduced by the receipts from the sale of the final Report and the additional receipts from the sale of the existing stock of the Committee's previous volumes.

*Survey of Overseas Markets.
Survey of Industrial Relations.
Factors in Industrial and Commercial Efficiency.
Further Factors in Industrial and Commercial Efficiency.
Survey of Metal Industries.
Survey of Textile Industries.

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FINAL REPORT

OF THE

COMMITTEE ON INDUSTRY AND TRADE.

The Rt. Hon. Stanley Baldwin, M.P.,
&c., &c., &c.

Sir,

We have the honour to submit to you our final Report.

I.—INTRODUCTION.

We were appointed by your predecessor on 28th July, 1924, to inquire into the conditions and prospects of British industry and commerce, with special reference to the export trade. On the change of Government which occurred in November, 1924, we were desired by you to continue our task. Of those originally appointed, Sir William Beveridge, Dr. Hugh Dalton and Mr. P. J. Pybus found it necessary to resign at an early stage of the inquiry. Sir William Ashley was appointed in December, 1924, and remained a member until his death in July, 1927. Sir Peter Rylands was appointed in April, 1925.

We have held 136 meetings, and in addition the sub-committees, which we found it desirable to constitute for various purposes, have met many times. Between 12th November, 1924, and 12th October, 1927, we received evidence from 213 witnesses representing 94 organisations, and from 27 witnesses appearing in an individual capacity, the total number of persons who have given evidence before us thus amounting to 240. A detailed list of witnesses will be found in Appendix I, and we desire to record our appreciation of the invaluable help which they gave us and of the care and ability with which their evidence was prepared and presented.

In addition to these witnesses, we have from time to time received great assistance from individual experts and from officials of various Government Departments, who placed their knowledge and experience at our disposal in informal discussions.

Further, we received valuable memoranda and information from a number of organisations, firms and individuals, while the frequent demands which we made upon the Government Departments for information and statistics were always promptly and thoroughly met.

The information which came into our possession in these ways was so voluminous and of such outstanding interest as to convince us, at an early stage of our investigation, that we should not be able to do justice to it, or to the task entrusted to us, by means of

a report on the usual lines. Most of the information had been specially prepared for us, and its valuable nature seemed to us to entitle it to be made widely known as promptly and in as easily available a form as possible. We therefore decided, in advance of the Report containing our final conclusions, to prepare a series of volumes embodying a great part of the information we were accumulating, together with introductory summaries digesting and to some extent commenting on that information.

By following this course we have now completed the first and principal part of the task entrusted to us, viz., " to inquire into the conditions and prospects of British industry and commerce with special reference to the export trade." We have surveyed these conditions and prospects, so far as the material available has permitted, from several successive points of view, and the results have been published in six volumes, of which the first three were issued in 1925, 1926 and 1927 respectively, and the last three during 1928*.

Throughout our inquiries we have kept specially in view the conditions and prospects of the export trade, not only because we were expressly enjoined to do so by our terms of reference, but because we were convinced from the outset that, in a country like Great Britain, the economic situation of which requires an immense importation of food and materials in order to provide for the sustenance and employment of its population, the maintenance and development of the export trade must necessarily be a prime object of national commercial policy. For these reasons, at an early stage of our inquiry, we selected eight great groups of exporting trades (viz., coal, iron and steel, engineering and shipbuilding, electrical manufacturing, cotton, woollen and worsted, chemicals, and clothing) to be the subject of special examination, without, however, confining our attention exclusively to these trades. On the appointment in 1925 of the Royal Commission on the Coal Industry we decided not to take any evidence regarding that industry, but a summary of the situation in the coal trade, based on the Report of the Commission with some later information, has been included in one of our volumes.†

In accordance with the Memorandum which accompanied our terms of reference, our first volume, which was published in July, 1925, under the title " Survey of Overseas Markets," was concerned with " the examination of tendencies and developments in the markets of the world and also in the chief competing countries." In this Survey we considered the principal factors affecting British

* In addition to these six volumes, the Committee submitted to the Prime Minister on 2nd July, 1925, a Memorandum on Transport Development and Cotton Growing in East Africa (see page 40 below), and to the President of the Board of Trade on 21st July, 1926, a Memorandum regarding an Index Number of Industrial Production (see page 231 below).

† " Survey of Metal Industries, " pp. 414–494.

export trade which arise out of conditions prevailing in overseas countries, including such matters as changes in local purchasing power, the growth of commercial barriers and of industrial "nationalism," and the operation of the preferences or adverse discriminations which arise from the customs policy of the countries with which we trade. Most of the statistics on which this Survey was based related to years not later than 1923. Naturally, therefore, some of the figures now need amendment. On a careful review, however, we have satisfied ourselves that the main lines of the picture presented by the Survey remain true at the present day, though some of the details require modification. The most substantial change in the situation disclosed by more recent information relates to the proportion of the world's export trade which falls to the share of Great Britain. On the basis of the statistics of 1923 we recorded the proportion as 14 per cent., a slight increase compared with the year 1913. The latest available figures indicate that on the same basis the share of Great Britain in 1927 was only about 12 per cent. This proportionate decline was no doubt partly attributable to the dislocation caused by the coal stoppage of 1926, but it is also symptomatic of the general tendency of European trade to lag behind that of non-European countries. It is significant that between 1913 and 1927 the European share of world trade fell from 62 to 52 per cent.

In the same volume we gave a detailed estimate of the change since 1914 in the *ad valorem* incidence of overseas tariffs on British export trade, and as a result we stated that, if the general rise in prices be taken into account, "the average *ad valorem* incidence of tariffs has not materially increased." The figures on which those calculations were based related to the year 1924, and the more recent estimates of tariff incidence made by the Preparatory Committee for the Geneva Economic Conference of 1927 would appear to justify a somewhat more serious view of the effects of post-war tariff changes on international trade in general. It is true that these estimates were made on a different basis, since they aimed at measuring changes in the level of tariffs generally, and had no special reference to the trade of Great Britain. Nevertheless, these figures, and still more the admirable review contained in the Report of the Conference of the conditions of world trade as affected by tariff barriers, give added emphasis to the observation in our Survey that "if we cannot estimate statistically the total obstruction offered by tariff barriers to British trade, it is clear that in the aggregate it is very great."

For the rest, the most important changes that have occurred in respect of particular markets since our Survey was published have been the continued deterioration of commercial conditions in China, arising from the protracted civil wars and consequent chaotic state of the country, the economic effects of the great earthquake in

Japan, the partial recovery of the Indian market, the growing strength of Germany as a commercial competitor, the continued increase in the economic and financial power of the United States, the stabilisation of European currencies, and the operation of various agreements relating to reparations and inter-allied debts.

Our second volume, published in 1926, dealt (to quote again from the Memorandum which accompanied our terms of reference) with "the relations between those engaged in production," including "methods of industrial remuneration, the main causes of unrest and dispute, and the methods of avoidance or settlement of disputes." In compiling and presenting material bearing on these and other aspects of industrial relations we have throughout regarded ourselves as governed by the main objective of our terms of reference, viz., "the conditions and prospects of British industry and commerce with special reference to the export trade." Accordingly, in our study of industrial relations, we have concentrated our attention on their bearing on the problem of British trade recovery and extension, and we have made no attempt to cover the whole field of social economy, or to examine and pronounce upon alternative ideals of fundamental social structure.

Our "Survey of Industrial Relations" was published in 1926, and the statistics on which it is based extend, in the main, to 1924 or 1925. We have considered to what extent more recent movements of prices, wages and employment affect the figures, and have satisfied ourselves that, if 1926—the abnormal year of the general strike and the prolonged coal dispute—be excluded, the picture presented in the Survey remains substantially unaffected in its main lines.

The parts of the Survey relating to the means of industrial negotiation and the prevention and settlement of disputes were, of course, written before the social and industrial upheavals which marked the year 1926, or the consequent legislation of 1927 relating to the status and responsibilities of Trade Unions. The disturbing effect on British overseas trade of the events of 1926 has been incalculable. The "general strike" gave at least a momentary shock to foreign confidence in the certainty of delivery of British goods, while the long continued and stubbornly contested coal dispute had effects on our overseas trade in coal which are unfortunately far from exhausted, and from which it may take long to recover. Apart from the general strike and the exceptional situation in the coal industry, with their legislative consequences, no changes of first-class moment have taken place in the field of industrial relations since the date of our Survey, though the enactment of the Unemployment Insurance Act of 1927 was an event of some importance.

The last four of our volumes have dealt with various aspects of the problem of industrial and commercial efficiency, or, in the language of the Memorandum which accompanied our terms of reference, "the ability of British industry to meet competition . . . . and to adapt itself to changes in the nature of overseas demand."

The third and fourth volumes published in 1927 and 1928 embodied our general Survey of Factors in Industrial and Commercial Efficiency, including such matters as industrial structure and combination, recruitment and training both in school and workshop, standardisation, industrial science and art, the burden on industry of public and social charges, changes in national savings, profits, output and costs of production and distribution, transport facilities and costs, industrial mobility and fluctuations, publicity and statistics, and the recent course of public trading enterprise. The last two volumes (both published in 1928) completed this part of the Survey by describing in detail the growth, organisation, economic condition, overseas trade, and special problems of the principal textile and metal trades.

All these four volumes have been so recently published that, so far as we are aware, nothing that has since happened necessitates any substantial modification in their contents.

In one important respect the four volumes which form the " Survey of Industries " differ from our two earlier volumes. The " Survey of Overseas Markets " and the " Survey of Industrial Relations " consisted mainly of information supplied to us by Government Departments, with Introductions written by ourselves. In the four later volumes, however, we utilised, in addition to material from Government Departments, information furnished in oral or written evidence, or supplied to us from outside sources as a result of special enquiries.

Looking at the six volumes as a whole, the outstanding feature on which we venture to think that we have good reason for satisfaction is their unanimity. It is true that these Surveys were concerned primarily with the digestion and orderly presentation of ascertained facts, and that they did not include definite recommendations on questions of policy. But it is well known that the same facts frequently present themselves to different observers in very different lights, and the net effect of the total picture depends at least as much on arrangement and grouping, weight and balance, light and shade, as on the accuracy of the individual facts which are assembled. Our Committee was not constituted on the basis of representation of different interests, but it was evidently in the mind of H.M. Government that it should be so composed as to include members possessing many different types of industrial and commercial knowledge and experience. Our members have thus naturally approached the inquiry from many different angles, including those of persons actively engaged, whether as employers or employed, in production, transport, distribution and finance, as well as those of trade associations, trade unions and co-operative societies, and of independent economic observers and statisticians. The fact that in these circumstances not only the material embodied in our detailed Surveys, but the series of introductions summarising and commenting on this material, and to some extent pointing the

way towards consequential findings, should have given rise to no single dissent or reservation, adds greatly to our confidence in submitting to you these six volumes collectively as constituting our reply to the first part of our reference.

It has been a matter of great satisfaction to us to note the reception which these volumes have met with from the public. In the aggregate nearly 22,000 copies have been already circulated, of which the great bulk have been sold ; and all the volumes are still in active demand. We have always hoped that these Surveys would have a valuable influence in forming and directing public opinion, by narrowing the field of controversy, clarifying discussion and enabling economic policy to be considered on a firm foundation of agreed facts. We venture to believe that these advantages have already to some extent been achieved, not only in Great Britain, but also abroad. We have been glad to find evidence that our analysis of economic and commercial conditions was a material factor in the preparatory work for the World Economic Conference which met at Geneva in 1927.

Not only have we assembled in the preceding volumes a mass of interesting and valuable statistics and other information enabling a picture to be constructed of the existing situation, and an estimate to be made of recent tendencies and probable developments, but in the present volume we make a series of definite recommendations for the compilation at frequent intervals of data which will serve to make more precise, and to keep continually up to date, the main statistical information as to production, wages and profits which it has been necessary to compile and analyse at great labour, and sometimes only in a partial form, for the purpose of our Surveys. It seems to us highly desirable that these various index figures, serving to measure movements of industrial activity, should not only be systematically published from year to year, but should be brought together and analysed at regular intervals of not more than five years in a single volume, which would serve to continue and keep up to date the principal measurable results of the present investigation. At the same time we think that it might be worth while for each of the principal Departments concerned with the subject matter of our various Surveys, to consider what other parts of those volumes could with advantage, and without extravagant cost, be revised and re-issued for the information of the commercial and industrial community, the general public, and the government.

Holding as we do that the principal value of such an inquiry as ours must consist in its indirect effects in moulding opinion, rather than in the direct results of specific recommendations, we might have felt some doubt whether, with the completion of our Surveys, it might not be well to close the whole inquiry. Up to the present there has been no breach in unanimity, in spite of the highly controversial and delicate character of many of the problems surveyed. Would it not be better, it might be asked, to leave the Surveys to

continue the educational influence which they have already begun to exercise, rather than to risk impairing such influence by attempting to formulate definite findings and recommendations on which complete agreement would be more difficult? On the other hand, our terms of reference expressly directed us not only to inquire into and report upon the matters included in our reference, but also "to make recommendations in regard thereto." Moreover, it must be remembered that as already stated the earlier Surveys were largely based on official material, and did not take full account of the oral and other evidence given before us. This evidence, much of which was received subsequent to the issue of the early volumes, embodied in the aggregate not only a valuable assemblage of relevant facts, but also a very important indication of representative trade opinion. Apart, therefore, from the clear direction in our terms of reference, we should feel that we had but imperfectly discharged our mandate if we did not conclude our Surveys with a statement of our own findings and practical conclusions, together with such specific recommendations as in our judgment can properly be founded thereon.

Our present, and final, Report is intended to constitute such a statement. It does not purport to cover again the ground of the Surveys, or to summarise the material which they contain. Such summaries as we thought could usefully be made have already been published as introductions to the various volumes, and we feel that much would be lost and nothing gained by an attempt to summarise these summaries.

Nor have we conceived it our duty to enter the dangerous field of "business forecasting," by presenting a considered appreciation of the probable future of British industry and commerce. So vast and complex a subject would offer so many possibilities of erroneous predictions, and any such errors would be so dangerous, that we should be disposed to abstain from such an attempt, even if we thought that it was implied in the direction "to inquire into the conditions and prospects of British industry and trade." But we are disposed to interpret these words not as directing us to make a general forecast of the future of British industry and trade, but rather to consider each branch of the subject both statically and dynamically, i.e., in relation not only to the conditions prevailing at the moment of investigation, but also to the character and direction of the observed trend.

It should, therefore, be understood that the present volume is neither a recapitulation nor a forecast, but an assemblage of practical conclusions, for which the main ground work is the material contained in previous Surveys together with the information and evidence submitted to us by witnesses, supplemented where necessary by data obtained by us from other sources, and interpreted in the light of the personal experience and knowledge of members of the Committee.

II. FUNDAMENTAL CONDITIONS.

Before we attempt to deal in detail with any of the numerous problems which have arisen in the course of our prolonged inquiry, we deem it essential to recall to mind certain basic facts and considerations which dominate the existing economic situation in Great Britain, and by reference to which most of the concrete proposals which have been formulated for improving that situation must necessarily be tested. For the problems and suggested remedies are so complex and interwoven that unless we keep steadily in view the fundamental governing conditions we shall be without a clue to guide us through the mazes of the labyrinth.

In the Memorandum accompanying our terms of reference our attention is directed in the first place to "the present position of British overseas trade and the prospect of British participation in the markets of the world being such as to ensure sufficient and continuous employment and a satisfactory standard of living in this country." The information before us amply confirms the assumption implicit in that Memorandum, viz., that the only practicable means of ensuring a satisfactory volume of employment for the industrial population under reasonable conditions is to secure and maintain a sufficient flow of exports to overseas markets, including under the term exports not only material commodities, but also those immaterial services which are sometimes termed "invisible exports."

This basic proposition follows inevitably from the fact that the population of Great Britain is to a large and increasing extent dependent for its food and the materials of its industry on imports from abroad. During the forty years 1881 to 1921 the population of Great Britain increased by 13 millions, or about 43 per cent., and during that period the proportion of the occupied population engaged in agriculture fell from over 12 per cent. to about 7 per cent. In 1927 the value of our net imports of food and raw materials amounted to nearly £800 millions. About four-fifths of our supply of wheat and flour and three-fifths of our supply of meat come from abroad. Coal is the only important raw material in which Great Britain is self-supporting. The whole of the cotton, nine-tenths of the wool and timber, and more than a third of the iron ore which we use are imported from overseas.

During the past century there has been a steady growth in our dependence on overseas supplies for the essential means of existence, and there is not the slightest reason to expect that the tendency will be arrested or reversed in the near future.

The possibility of producing in Great Britain a larger proportion of the essential raw materials of our industry is severely limited by climatic and geological conditions, and though no doubt new discoveries and methods of production may here and there enable

a home product to be substituted for an import, the aggregate result of such changes cannot affect the broad outlines of the picture. On the other hand, the possibility of replacing imports of foodstuffs by increased agricultural production is strictly limited by considerations of economic cost. We have not regarded agriculture as included within the scope of our reference, and we therefore have no evidence enabling us to estimate to what extent it is possible to increase the home production of food by any measures of agricultural policy which would not unduly handicap the development of industry and trade by a large increase in national taxation, or by an excessive rise in the cost of living. It seems, however, plain from the figures in our possession that no such measures could appreciably affect the general statistical position in respect of the total dependence of this country on overseas supplies. If for the sake of illustration we made the improbable assumption that the home production of wheat, meat and dairy produce could be increased by ten per cent., the resulting decline in food imports would only decrease the total value of our imports of all goods by an amount well within the ordinary margin of fluctuation from year to year. Having regard to the economic limits within which any practicable measures to increase the home production of food must be confined, it seems doubtful if they could be reasonably expected to do much more than to check the present rate of decline in the proportion borne by home to overseas supplies of some of our essential foodstuffs. We are not concerned to deny that some national effort to increase the home grown food supply may be highly desirable, e.g., for reasons connected with national security, health or well-being. This is a question outside our reference. All we desire to point out is that no such effort could appreciably affect any argument founded on the aggregate extent of the country's dependence on importation for essential supplies.

In the remaining category of imports—manufactured and semi-manufactured goods—there is of course more room for substituting home products for imports by measures of commercial policy, but the total possible effect even of a high tariff on our dependence on overseas supplies would be a good deal less than is often supposed. The total value of our imports under this category is only about a quarter of the whole, and the heading includes a large amount of semi-manufactured materials which are indispensable to industry. Moreover, if the whole of the fully manufactured goods now imported were excluded from our markets (a quite impossible assumption), there would have to be a largely increased importation of raw materials to enable the corresponding goods to be manufactured in Great Britain. It seems highly unlikely that even extreme measures of industrial protection could have the effect of reducing the value of our total imports of all articles from abroad by as much as 5 per cent.

In any discussion, therefore, of the position of British industry and trade, and of the problem of maintaining the standard of life of the

industrial population, it must be regarded as axiomatic that Great Britain is, and, apart from wholesale emigration, must remain, a country necessarily dependent on overseas supplies for the means of feeding and employing its population. For a community thus situated the ideal of self-sufficiency is wholly inappropriate. Whether our present condition of dependence on external supplies is to be welcomed or deplored is in the circumstances a question of merely academic interest. All that we can do is so to frame our national policy as to reap the maximum of advantage, and to incur the minimum of danger, from conditions that cannot be substantially changed by any action which it is open to us to take.

From this point of view the first question we have to ask is how best to ensure the receipt of constant and adequate supplies of necessary food and materials from overseas. To this question there is but one answer. In the long run the only means of securing such imports as are essential is by offering our own products and services in payment.

It is not intended to suggest that in the case of a country such as Great Britain there is any actual equivalence between the annual inward and outward flow of commodities and services. The complications introduced into the equation by international movements of capital and of the interest on loans and investments will be examined when we come to discuss the principles of British Customs policy*. But such qualifications, though important in relation to certain aspects of the problem, do not affect the fundamental fact, which cannot be too strongly emphasised, that the life and means of livelihood of the people of Great Britain are dependent on the maintenance of her exporting power. If, as will be argued later†, it is necessary to the safety of the future trade and supplies of this country to maintain a substantial outward flow of capital for the development of overseas countries, the aggregate of British exports, visible and invisible, needs to be more than sufficient merely to balance the corresponding aggregate of imports.

In emphasising the dependence of this country on the maintenance of her exporting power, we must not be thought to overlook or under-rate the very important part played by production for home consumption in maintaining the employment and subsistence of the industrial population. As indicated below, a much larger proportion of the whole volume of British industrial production is consumed at home than is exported overseas, and in many trades the prosperity of the home market is an essential condition of their exporting power. But in the circumstances of a country situated like Great Britain the problems of maintaining the home and overseas markets are mutually dependent, since a necessary requirement of both is the free inflow of materials and food.

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* See p. 263 below. † See p. 44 below.

The instinct which makes so many observers measure the national prosperity exclusively by the test of exports is by no means wholly wrong, though it sometimes leads them to under-estimate the importance of imports, the securing of which supplies the principal motive for carrying on an export trade. The main reason why, following the terms of our reference, we shall be concerned in the present Report more with the maintenance of exports than of imports is that the conditions which govern the production and saleability of British products lie more within the range of our own choice, and can be more influenced by our own voluntary action, than the conditions governing the market prices of the food and materials which we obtain in exchange.

Only a minority of our industrial population is directly engaged on work for export, and probably only about a quarter of our total industrial production is exported overseas. Nevertheless, the whole of our industries, whether making for the home or the overseas market, are alike dependent on the maintenance of our export trade, inasmuch as it is only by successful exportation that necessary supplies of food and materials can be obtained.

The conclusion that emerges from the above considerations is that the problem to which attention is directed by the Memorandum accompanying our reference, viz., of ensuring "sufficient and continuous employment and a satisfactory standard of living in this country," is insoluble apart from the maintenance and development of exports of goods and services. This proposition is equally true whatever be the policy followed as regards private or public control of industrial enterprise, and whatever be the criterion by which a "satisfactory" standard of living is defined.

The expression "satisfactory standard of living" may be interpreted in different senses, whether absolutely, as implying the power to command a certain amount of the necessaries and luxuries of life, or relatively, by comparison with past experience or with the standards enjoyed by other social classes or with those prevailing in other countries, or finally by reference to a combination of these criteria. Generally speaking, men's habitual judgments as to what constitutes to them a "satisfactory standard of living" tend to be more relative than absolute, and they usually attach more weight to comparisons with past and present conditions within their own country, than with the less familiar standards of life of alien races.

But, however this may be, it must be evident that the standard of living which the population of a country situated like Great Britain can hope to maintain must depend to no small extent upon the real cost of producing the goods that must be exported in order to obtain the imported goods which are necessary to their existence. The quantity of exports which must be given in exchange for imports is no doubt largely outside our power to affect. But it is obvious that, if we are to obtain from abroad the food and materials which

are essential to maintain the standard of living and continuity of employment of our population, we must preserve and extend our means of access to overseas markets and so maintain and increase our efficiency as to produce our exports at minimum real cost, having regard to quality and suitability for their market.

Hence the twin problems of ensuring continuous employment and a " satisfactory " standard of life are inextricably bound up with the solution of the problem of export.

To those who fully appreciate the fundamental conditions set out above, it will be evident that the task imposed on us by our terms of reference is a double one, viz. (1) to examine the means of preserving and extending access for the products of this country to the world's markets on the most favourable terms possible, (2) to consider the means by which British manufacturers and traders may produce and send abroad a sufficient quantity of goods suited to the requirements of overseas purchasers on terms acceptable to them.

The matters included under the second of these two categories will naturally occupy the greater part of the present Report, since they are for the most part much more directly within our own control than those within the first category. Before, however, proceeding to the detailed examination of the factors affecting the costs and efficiency of British manufacture and trade, it seems expedient to consider briefly the present trade position as affected by imperfect means of access to overseas markets, and in particular by barriers created by the policy and practice of the countries in which those markets are situated.

For this purpose it is desirable to deal separately with foreign markets and with overseas markets within the British Empire.

SECTION III.

THE MEANS OF ACCESS TO EXTERNAL MARKETS.

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III. THE MEANS OF ACCESS TO EXTERNAL MARKETS.

(1) Foreign Markets.

Existing position.

It was shown in our " Survey of Overseas Markets " that, broadly speaking and with relatively insignificant exceptions, British goods are admitted into foreign countries on terms at least as favourable as those applicable to similar goods imported from other foreign sources. Either by treaty, domestic law, or customary practice, British trade enjoys in almost all important markets the benefit of " most-favoured-nation " treatment. In countries which do not formally grant " most-favoured-nation " treatment, but practise " tariff reciprocity " either by means of two or more tariff levels or through the negotiation of separate reciprocal bargains, Great Britain, in virtue of its liberal Customs policy, usually enjoys the benefit of the lowest rates of duty.

So far there appears to be matter for satisfaction rather than for complaint, but it must be remembered that the enjoyment of equal treatment with that accorded to other countries, though in our judgment it affords an invaluable basis for commercial relations, does not of itself give British trade all the guarantees necessary for its maintenance and expansion. To realise the whole position it has to be remembered that, as explained in our " Survey of Overseas Markets," many of the countries which formerly took our goods are now endeavouring to produce many classes of them at home, under the protection of high and increasing tariff barriers. It has also to be remembered that, as stated in the report of the World Economic Conference held at Geneva in 1927, " the increase [of tariffs] in most countries is almost wholly due to higher duties on manufactured articles."* Naturally, Great Britain, which is the greatest exporter of manufactured goods, is the most exposed to injury by tariff barriers of this kind, while the modern practice of minutely subdivided tariff headings may materially limit the protection afforded to British trade by the " most-favoured-nation " clause.

Report of Geneva Economic Conference.

We have examined carefully the very remarkable report of the Geneva Economic Conference, which, as expressing the considered views of the leading commercial and industrial interests of all the principal countries of the world, must be regarded as the most weighty and authoritative pronouncement in recent years with regard to the world economic situation, its causes, and the best means of remedy, or at least of approach to a remedy, through international

* Report (First Impression) p. 29.

or national action. Several of our members, including our Chairman, participated in the Conference and in the preparatory steps which led up to it, and we have therefore had exceptional means of following the whole course of its proceedings.

Broadly speaking, we are able as a Committee to endorse and adopt as our own the general point of view with regard to international commercial relations which is set out in the final report of the Conference. If the problem were looked at solely from the particular angle of British trade interests, we might have been disposed to vary the emphasis and modify the language in some respects, but it must be remembered that the report in no way represented a sectional point of view and was not concerned with the exposition of any particular economic doctrine. Its great value and authority arise from the fact that it was comparatively independent of national and doctrinal pre-dispositions, and that it so largely expressed the common opinion of competent industrial and commercial authorities of many countries and schools of economic thought on the practical means of improving commercial relations and fostering the world's trade.

The fundamental basis of the Geneva report is the well known, but little regarded, truth that the commercial world forms an interdependent community the prosperity of every member of which is bound up with the prosperity of the others. This does not of course mean that no country can ever get the best of a bargain with another, or secure benefit by a trial of competitive strength. But it does mean that the predominant interest of each commercial country is the economic recovery of the world as a whole ; that it is, for example, in the long run, much more important for British trade that the purchasing power of the countries with which that trade is carried on shall be revived and increased, than that British exporters should profit by adverse conditions affecting some of their competitors to displace them in some particular market.

Until we get firmly fixed in our minds a right appreciation of relative values, and realise, not as a matter of sentiment but of business, that our major interest as a country is identical with and not opposed to the major interest of the countries which buy our products and supply our needs, the natural inclination will be to look upon international resolutions, recommendations and conventions with at best a tolerant but languid goodwill, and without that strong, determined and sustained interest and belief which alone can enable them to be translated into practical action.

Reverting to the report of the Geneva Economic Conference it is of great interest from the point of view of British trade to note the clear and explicit finding that tariffs " are at present one of the chief barriers to trade,"* and that " the time has come to put a stop to

* Report, p. 29.

the growth of Customs Tariffs and to reverse the direction of the movement."* A large part of the report was concerned with the best means of giving effect to this conclusion, whether by collective action, bilateral agreement, or individual action by States.

Among the specific recommendations of the Economic Conference for this purpose was the embodiment in commercial treaties of the "unconditional most-favoured-nation clause in its broadest and most liberal form."† The Conference, however, was far from considering that the adoption of this recommendation would suffice by itself to restore healthy conditions to international trade. The report also recommended direct steps to remove or diminish tariff barriers, and to check the practice of evading the "most-favoured-nation" clause by means of minute subdivision of tariff headings. It is specially noteworthy that the Conference put its finger unerringly on two of the most formidable obstacles to reduction ‡:—

(1) "the desire of certain nations to attain a degree of economic independence which is not justified by their slender resources," and the consequent "attempt to reserve the home market for home production by means of tariff barriers."

(2) The fact that "high tariffs of whatever system have, in many cases, also been imposed, in the first instance at all events, for bargaining purposes. But subsequent negotiations have in practice not resulted in adequate modifications, with the consequence that the Customs barriers have been left higher than before." In this connection the Conference expressed special condemnation of the post-war practice of enforcing the exaggerated rates of *tarifs de combat* in advance of negotiations, "with the result that vested interests have frequently grown up in the meantime which have made impossible the contemplated reductions."

We cordially endorse these weighty pronouncements against the evils of "ultra nationalism" in tariff bargaining. Whatever may be the measure of success achieved in the difficult task of giving practical effect to the findings of the Conference, there can be no doubt of their value and significance as a diagnosis of the existing situation.

Tariff negotiations.

It is obvious that in the main the desired end must be achieved, if at all, by one or other of two methods or by a combination of the two. These methods may be broadly described as methods of peace or of war, i.e., negotiation and agreement on the one hand or retaliatory action on the other. Quite clearly the Geneva Conference points towards the former rather than the latter method.

It is, however, frequently urged that Great Britain by its commercial policy has put it beyond its power to conduct a successful negotiation, or to take its place on a footing of equality among other

* Report, p. 29. † Ibid, p. 29. See also Ibid, p. 34. ‡ Ibid, p. 30.

negotiating countries each of which has something to offer in the way of tariff reduction in exchange for a corresponding advantage. This argument appears to derive little support from the report of the Economic Conference, which by clearly exposing the successive steps of the tariff bargaining process by which the tariffs of the principal countries of continental Europe are normally settled, shows conclusively that it cannot in the long run lead, and that as a matter of historical fact it has not led, to a reduction of the general level of tariffs. The tendency is in the opposite direction, and this for a very good reason. Effective tariff bargaining in the ordinary continental sense demands that as a preliminary step tariff rates shall be raised. Where a country (like Great Britain) fixes its Customs duties solely to meet its own domestic needs there can be little or no margin for tariff bargaining of the continental kind. In such conditions there may be occasionally, and as it were by accident, rates of duty which could be profitably used as a weapon of negotiation. We do not underrate this possibility, to which we return below. But, broadly speaking, it may be said that tariff bargaining as a normal method of endeavouring to obtain freer access to foreign markets is only possible if the actual negotiation is preceded by the raising of the tariff on one or both sides for the express purpose of giving a margin for bargaining. Even then, as already mentioned, the object is frequently defeated by the growth of vested interests in the interval which refuse to allow the intended reductions to be made, or by the failure of the negotiations for other causes. The final result of the whole process is more often than not a rise instead of a fall of tariff level, if the comparison is made not with the purposely inflated rates of the "*tarif de combat*," but with those which were actually in force before the first step towards tariff bargaining was taken.

The general objection to tariff bargaining on these grounds does not apply to agreements to "consolidate" tariff rates, i.e., to refrain from raising them to higher figures. Such agreements are specially commended by the Economic Conference,† provided, of course, that their benefits are extended to all countries entitled to "most-favoured-nation" treatment.

We can the more unreservedly concur in the condemnation of tariff bargaining on the continental model, because neither the principles on which the present British Customs tariff is framed, nor those advocated by any of the trade witnesses who have given evidence before us, would admit of Great Britain adopting the continental procedure as a normal method of tariff construction.

Such procedure would necessitate the imposition of Customs duties on particular classes of imports into the United Kingdom, at rates designedly exceeding those which are thought necessary to meet the

† Report, p. 27, s. 3 (3).

needs of the British industries concerned, in order to leave a margin for lowering these rates in exchange for the freer admission into some overseas market of some other class of British products. This is not the proper place in which to discuss the principles of British tariff policy in its general bearings, and particularly in relation to the problems of industrial costs and competitive power. But without anticipating the results of the general discussion which will be found on pages 262 et seq., we may express our doubt if any support would be found for such a procedure as is indicated above. We do not believe that in the long run the negotiating countries obtain by such methods any material advantage of the only kind which is of interest to British trade, viz., the lowering of the tariff barriers by which overseas commerce is obstructed. Nor do we desire to see the British tariff (for whatever purposes and on whatever principles it may be constructed) so framed as to permit or require that the rates of duty should be the subject of eventual bargains with foreign countries.

We are, however, far from suggesting that in relation to continental tariff negotiations Great Britain should play a wholly passive part. Recent commercial history shows that it is in the highest degree desirable, and indeed essential to the safeguarding of our interests, that the appropriate Department of State, acting in close co-operation with the organisations representing British manufacturers and traders, should maintain a close watch throughout the whole process of the negotiations, to see that they do not involve any avoidable sacrifice of important British interests. How and in what degree and at what stage official intervention shall take place and what shall be its groundwork are matters of commercial diplomacy, the principles and methods of which are discussed below (see pp. 27–32). Nor would we by any means exclude the occasional use of such tariff rates as may happen to be available for the purpose, as means of bargaining to secure some commercial advantage for British trade. Such occasions have arisen in the past, and may arise again, in connection with duties originally imposed for quite other purposes, and it would be mere pedantry to forego any advantage that might be obtained in this way by a skilful negotiator. Such casual bargains, however, though by no means to be belittled, have hardly any relation to systematic tariff bargaining as a normal policy, and indeed they depend for their success on their rarity. Should they become so frequent as to be regularly expected, foreign countries would certainly anticipate them by preparing special bargaining rates, and all the evils of continental tariff bargaining would begin to appear.

So far we have referred to the means of obtaining better access to a foreign market through the negotiation of a commercial treaty with or without a tariff schedule. We have also, however, to consider the possible use of Customs duties as a means of retaliation in the event of negotiations failing. Such retaliation is an act of economic war committed in order to force a country to open its markets on more reasonable terms. Like all methods of warfare

it is very wasteful, and liable to lead to all kinds of undesired and unfortunate consequences for one or both of the countries concerned as well as for third parties. If, nevertheless, we do not think it would be wise or safe to abandon entirely the right to have recourse to such a weapon in the last resort, we should deprecate in the highest degree any such recourse before all peaceful methods of negotiation have been exhausted, especially in view of the practical impossibility of confining the mischief caused by tariff wars to the parties directly concerned. We note that the section of the Peace Treaties sometimes known as the Labour Covenant expressly contemplated the use of economic pressure (or in other words measures of retaliation) as the means of enforcing Conventions in the last resort. There is fortunately no experience as yet of the results of attempting to put these provisions in force.

Broadly speaking, our review leads inevitably to the conclusion that the foundation of healthy international commercial intercourse is fair and considerate treatment on both sides, and that by far the most potent method of ensuring that British commerce shall receive fair and considerate treatment in overseas markets is to maintain the confidence of other countries that their trade is on the whole fairly and considerately dealt with in Great Britain. Whether this mutual confidence be confirmed by formal conventions for a given period of years, or whether it rest on unwritten understandings and beliefs, is a question of detail. The fundamental necessity is that such confidence shall exist. This does not mean that it is incumbent on Great Britain to sacrifice any of its own essential interests in order to placate some foreign country, nor should we win their respect or confidence by so doing. But it does imply that we should endeavour to explain frankly to foreign countries, in terms which will carry conviction, the fundamental conditions which determine our commercial policy, and in particular those which necessarily arise from our Imperial relations as one of a Commonwealth of States bound together by ties of common nationality and sovereignty. So far as concerns Great Britain as a separate unit, the essential nature and conditions of our national economy, and of the commercial policy dictated by these conditions, were admirably sketched in the brief statement furnished by the British delegates to the Geneva Economic Conference.* But within the limits prescribed by Imperial needs on the one hand and the economic conditions of our national existence on the other, it is the path of wisdom and prudence to test every proposal affecting international commercial relations, not merely by its direct and immediate effects on British trade, but also by its possible repercussion on the treatment accorded to British goods in overseas markets. Moreover, in applying this test regard should be had not merely to the possibility of reprisals in kind, but to the cumulative effect of such measures in improving or prejudicing international trade relations.

* Publications of the League of Nations, II Economic and Financial 1927, II 31 (a).

Commercial Treaties and Conventions.

It has been stated above that the question whether or not our trade relations with foreign countries are determined by formal Conventions or rest on unwritten understandings is one of detail rather than of principle. It is, however, a very important detail, since it is only by the conventional method that British trade can be secured against some sudden change of commercial policy in one of its overseas markets. It is true that the safeguard of a long-period treaty is not so complete as is often imagined, since, when once the first period has run out, the treaty usually continues in force merely from year to year. There is, however, a good deal to be said for the view that treaties which are most easily denounced are often those which continue longest in force. In our judgment the real value of Conventions as a safeguard to international commerce depends not so much on the length of the initial period within which they cannot be abrogated as on the explicit and uniform character of the terms in which they lay down the mutual obligations of the parties. In this respect, 'multilateral' Conventions have the great advantage over the more usual 'bilateral' Commercial Treaties that the stipulations applicable to all the parties are expressed in identical terms, and tend therefore to establish a common economic doctrine or standard, the influence of which may extend far beyond the circle of States by which the Convention is ratified. On the other hand, the 'bilateral' treaty has the advantage that its provisions can be closely adapted to the needs of the two contracting States without the necessity of being 'watered down' in order to take account of the varying conditions and points of view of a large number of other countries. There is, therefore, an important place both for 'multilateral' and 'bilateral' commercial agreements, and it is not desirable that either method should supersede the other. The two methods are, in fact, mutually complementary, the general Convention establishing the basic principles of international commercial intercourse, while the bilateral treaty elaborates these principles and applies them to the specific conditions of particular States.

If in this Report we lay particular stress on the advantages of general international agreements, it is only because this method is newer and less widely understood, and its benefits are less generally recognised than those of the older-established method of bilateral negotiation. It is no exaggeration to say that a Convention which is authoritatively adopted by a general diplomatic conference, whether or not convened by the League of Nations, becomes a model or ideal towards which the economic policy and practice of the countries of the world tend gradually though often slowly to approximate, and as this tendency is generally towards the removal of economic barriers and the promotion of international co-operation it is likely to be to the advantage of British trade. When, therefore, complaint is rightly made of the slowness with which Conventions on

vital commercial relations have been ratified, it is only right to bear in mind the continuous beneficial pressure exercised by many of these Conventions regarded as authoritative expositions of sound policy, quite apart from the number of ratifications deposited. Especially we would mention such Conventions as those relating to Freedom of Transit, Navigable Waterways, Customs Formalities, Maritime Ports, International Railways and Import and Export prohibitions, as well as a number of the Conventions concluded through the medium of the International Labour Office.

If we turn from these general considerations and look at international Conventions from the definite and narrow point of view of binding and enforceable agreements, there is more room for differences of opinion. The attitude of some countries towards the strict fulfilment of conventional obligations is so different from that which prevails in other countries, and particularly among nations whose legal and constitutional traditions are similar to ours, that many persons feel a not unnatural doubt of the interpretation which will be put upon the terms of a Convention by some of the parties thereto, or the strictness with which its stipulations will be enforced. We do not deny the force of some of these considerations, though we believe that the fears entertained are on the whole exaggerated, and are confident that over a large part of the area covered by most of the Conventions a reasonable degree of uniform interpretation and enforcement is to be expected. We return to this point when we deal specifically with one of the Conventions which has so far failed to obtain general ratification, viz., that dealing with hours of labour.*

Generally speaking, we are of opinion that Great Britain's major interest is to take a leading part in negotiating and participating in international Conventions, if only for the purpose of influencing other countries in the direction of gradual conformity to the basic liberal principles underlying British commercial and economic policy. In all such negotiations the importance of securing so far as practicable the adoption of uniform principles of interpretation and enforcement should always be borne in mind, and in some cases it may be possible to provide explicitly for the case of non-observance by one of the contracting parties. But though every effort should be made in any such negotiation to secure, so far as practicable, uniformity of application and interpretation, it would, in our judgment, be very unwise to subordinate all other considerations to the successful attainment of this aim, and to ignore or undervalue the great indirect advantages which may flow from an international Convention from the mere fact that it tends to establish an authoritative standard of international commercial policy.

While emphasising the above considerations, we are bound to add that the information supplied to us shows that the progress of ratification of some of the Conventions of interest to commerce, which have

* See pp. 107 et seq.

already been concluded under the auspices of the League of Nations, has been discouragingly slow ; and we fear that, unless means can be found to expedite the process, there is some danger that the whole method of international conventions may become discredited.

It appears to us that the responsibility for these delays lies not with the League of Nations, the Secretariat of which does all in its power to stimulate ratification, but with the various States themselves, and that the only remedy is the exercise of constant pressure on the Governments of these States by the great trade organisations, both national and international.

(2) Empire Markets.

Introductory.

When we turn from foreign markets to those of the overseas countries within the British Empire we find ourselves in the presence of a different set of conditions. It is true that the Governments of all parts of the Empire which enjoy tariff autonomy are accustomed to frame their Customs tariffs primarily in the interest, as they conceive it, of their own population. If there ever was a time when the tariffs of the British Empire could be managed from London in the sense in which French Colonial tariffs are managed from Paris, largely in the interest of the trade of the mother country, that time has long since passed away. To this extent Dominion and Colonial markets resemble foreign markets, and British manufacturers and traders have there to encounter the same tariff barriers and other difficulties of access, as compared with the home producer, which they meet in foreign markets. As compared, however, with their foreign competitors in the same markets, British manufacturers enjoy in all the principal Dominions and in a number of Colonies advantages in the form of tariff preferences which have proved of the greatest advantage to British trade.

Value of Imperial Preference to British trade.

A full account of the preferences accorded to British trade in different parts of the Empire will be found in our " Survey of Overseas Markets "*. We do not think it necessary to go over the ground again, since the high value of the preferences to British traders is universally admitted. The great importance of our present trade with other parts of the Empire is sufficiently indicated by the fact that between 40 and 50 per cent. of our total exports are directed to Empire markets, while the substantial value of the Dominion and Colonial preferences is shown

* See pp. 549–54. Since the date of that volume changes of some importance have been introduced in the conditions of preference in Australia and New Zealand ; and in South Africa the preference has been confined to a limited range of goods.

by the fact that the preferential tariffs of the Dominions are on the average less than their general tariffs by approximately 9 per cent. ad valorem. No foreign markets absorb nearly so great an amount of British goods per head of their population as New Zealand and Australia, while (with the sole exception of the Argentine) the same is true of South Africa and Canada. The above four Dominions taken together purchase British goods to an amount equal to nearly £6 per head of their population, as compared with about 10*s.* for France, Germany, and the United States.

Such figures, supported as they are by the testimony of the trade witnesses who appeared before us, are amply sufficient to show the great value and importance to British traders of the preferential access which they enjoy to certain Empire markets. In view of the facts it cannot admit of doubt that the preservation and development of these advantages must be one of the cardinal objects of British commercial policy.

Before considering by what means the permanence of Imperial Preference can best be ensured, it is desirable to recall that the modern practice of preferential Customs treatment, as it has grown up in the self-governing Dominions, is founded on two basic principles of equal importance—

"(*a*) complete autonomy in the construction of tariffs so as to suit the needs and conditions of the country concerned;

(*b*) so far as is consistent with the above principle the admission of goods of British origin on specially favourable terms as compared with imports from other countries.

The idea of definite reciprocal tariff bargains between Great Britain and other Empire Governments, fixing the terms on which inter-Imperial trade should be carried on, is quite alien to the modern spirit and practice of Imperial preference.

Reciprocal action by Great Britain.

From the point of view of our own terms of reference the practical problem is how to reciprocate the spirit which has inspired Imperial Preference, without sacrificing any essential interest of the population of Great Britain.

Such reciprocation need not, and in the circumstances of Great Britain cannot, take the form of equivalent tariff preferences, though, within the necessary limits which govern the British Customs tariff, certain opportunities arise from time to time of giving advantages to Empire goods in the markets of Great Britain. This is a matter which can only be fully dealt with when we come to review the governing conditions, objectives and methods of British tariff policy.* It is evident, however, from what has already been said as to

* See pp. 262 etc. below.

the essential economic conditions to which British commercial policy must necessarily conform, that there are insuperable difficulties in the way of attempting to compensate the Dominions *in kind* for the preferences freely accorded by them to British manufactures, inasmuch as this would involve the imposition of duties on staple foodstuffs and raw materials to the serious detriment of our exporting power, in order to give a preference thereon to Empire products. We are convinced that no Dominion would *mutatis mutandis* be willing to adopt a similar policy, and we do not believe that they would expect or wish Great Britain to do so. We believe that the necessary basis of all sound commercial relations among the States of the British Empire is the full and general recognition of the principle that prior regard is due to the essential needs and interests of the home population.

Applying this principle to the case of Great Britain we are clear that the broad lines of tariff policy must be determined by the needs and conditions of the home population. But if and when, having regard to those needs and conditions, it is deemed expedient to impose an import duty on some class of goods, a case arises for giving a preferential rebate on such duty to products of other parts of the Empire. Such preferences are in fact already accorded on a number of dutiable products such as wines and spirits, tobacco, sugar, tea, coffee, cocoa, dried and canned fruits, and silk, while the "Key Industry" duties are solely applicable to goods of foreign origin, the "McKenna" duties are subject to a rebate of one-third in the case of Empire goods, and all the "Safeguarding" duties so far enacted have been subject to a similar rebate.

We do not recommend any substantial change in the general policy at present followed by Great Britain in the matter of granting preference to Empire goods in respect of dutiable imports. We think, moreover, that in deciding whether or not any particular duty should be imposed or maintained, the question how far such a duty may offer an opportunity for Imperial preference should be invariably taken into consideration. But we are under no illusion that any such extension of preferences as is practicable, within the limits of the conditions governing our economic life, can, taken by itself, confer benefits on Empire products equivalent to those which British manufactures enjoy in Empire markets through the operation of Dominion and Colonial preferences.

In our judgment, however, the attempt to reach equivalence in tariff concessions as between Great Britain and the Dominions implies an unduly narrow conception of Imperial trade relations. It seems to us that for any just appreciation of the problem as a whole we ought to take a much wider view, and to bring into account the great advantages conferred on Empire products in the markets of Great Britain through the normal operation of an exceptionally liberal Customs policy, as well as the special position enjoyed by Empire

Governments desiring to raise loans in London, under the British law which gives their stocks the status of a Trustee security, a status denied to various classes of stocks which are at least equally well secured. Nor should the fact be ignored that the bulk of the cost of naval protection, so vital in times of emergency, falls on the taxpayers and the industries of Great Britain. Moreover, it is to be remembered that the promotion of the sale of Empire products in Great Britain through the operations of the Empire Marketing Board confers a substantial advantage on Empire trade.

In enumerating these methods of reciprocation we are very far from wishing to strike a balance between their cumulative effect and the benefits reaped by British manufacturers from the preferences which they enjoy in Empire markets. Our purpose is very different, viz., to bring home to the British commercial community and the British public generally that these various kinds of advantages ought not to be regarded as isolated and disconnected measures, but rather as elements of a general policy of Empire development, in the success of which they are all deeply interested, from the insular no less than from the Imperial point of view. The whole question of Imperial economic relations would be raised to a higher plane if it were generally recognised that, within the family of states constituting the British Commonwealth, it is the duty and interest of each state, subject always to the safeguarding of its own essential economic life, to do everything possible, without reference to any exact bargaining equivalence, to promote the prosperity of the Commonwealth as a whole.

Representations to Dominion Governments.

The above view of Imperial trade relations, viz., that each preferential advantage conferred on Empire trade should be the result of spontaneous and unilateral action rather than of a narrow reciprocal bargain, is entirely consistent with the opinion which we also hold strongly that in respect of any tariff disability under which a particular class of British goods may suffer from time to time in an Empire market, representations ought to be made to the Government concerned in the interests of British trade at least as readily and frankly as they would be made to a foreign Government in similar circumstances. Many persons have the impression that there is a good deal more hesitation in approaching a Dominion Government officially on a tariff grievance than would be felt in making representations to a foreign Government in similar circumstances, and that British trade sometimes suffers accordingly. If there be any foundation for the impression that official representations on behalf of British trade are less strongly pressed on Dominion than on foreign Governments we cannot help feeling that this must be due to a misconception of Imperial psychology and of the basic principles of Dominion tariff policy.

In this connection we may refer to a strong complaint made to us in evidence by the representatives of the confectionery trade that the Canadian Government make no allowance for British Customs or Excise duties or drawbacks, in assessing their ordinary Customs duties, or for British Customs duties or drawbacks in administering the Canadian anti-dumping law. We believe that similar protests have been made in respect of other articles. Though the matter was discussed at the Imperial Conference of 1926, we understand that no decision has yet been taken by the Canadian Government to remedy what is a substantial grievance of British traders. We trust that the matter will be pursued until a satisfactory solution of the difficulties can be arrived at.

Inter-Imperial trade relations.

Whatever be the actual trading conditions established *inter se* by the countries of the British Empire, it cannot be too strongly emphasised that, in relation to all other countries, inter-Imperial trade relations must be considered as a purely internal question which is not open to diplomatic negotiation or discussion with any foreign country except for purposes of explanation. We are aware that this has been the attitude consistently adopted by successive British Governments for at least a generation, and that it has been maintained in connection with the various negotiations for international Conventions under the auspices of the League of Nations. We understand that several such Conventions contained an express provision reserving from their operation arrangements concluded *inter se* by different States within the same sovereignty. We are not concerned with the precise method by which the vital principle is protected, so long as the protection is complete and effective, but we are clear that it is absolutely essential to retain a completely free hand in all that concerns trade relations within the Empire, and to refuse to participate in any international convention or agreement, however otherwise attractive, the terms of which might appear to put this principle in peril.

Export duties or restrictions.

While, however, in our judgment, the interests of British industry and trade no less than those of Imperial unity demand that the above principle should be maintained at all costs, it is all the more incumbent on us to take the greatest care that the freedom on which we insist shall not be unreasonably used so as to imperil the legitimate economic interests of foreign countries. For this reason, as well as on other grounds of policy, we should deprecate strongly any proposal such as was suggested to us in evidence to extend the scope of Imperial preference so as to apply to export duties or restrictions. The idea of giving to the manufacturers of the British Empire preferential access to the vast range of materials of industry produced

within it may have a certain superficial attractiveness, but it is, we believe, unsound and impracticable, if only for technical reasons. But, apart from these reasons, it seems to us certain that any attempt to deny to other manufacturing countries the right of access on equal terms to the raw materials of the British Empire would be regarded by these countries as a deadly menace to their interests, and would consequently arouse widespread alarm and hostility which would react unfavourably on all our international commercial relations.

(3) The Machinery of Commercial Diplomacy.

Introductory.

The discussion in the previous pages brings out clearly how essential and important and at the same time how anxious and delicate is the task which falls on those branches of the public administration which are concerned with commercial diplomacy. We use this term in the widest sense, to include not only actual negotiations with overseas countries, but the constant work of vigilant observation and systematic consultation which alone can enable a State Department, as and when necessity arises, to conduct negotiations or to make representations on the right lines, at the right moment, and in conditions most likely to lead to a successful issue.

We are glad to be able to testify, both on the weight of the evidence before us, and also on grounds of our personal experience, that the conduct of British commercial diplomacy, in the above sense of the term, has been greatly improved in recent years as regards both equipment and method. The public services are, we are convinced, becoming more and more deeply penetrated with a sense of the vital importance of British overseas trade, and there has been a corresponding decline in the feeling which formerly prevailed among business men that commercial and economic considerations were regarded by H.M. Government as essentially inferior in importance to political interests, and that where the two clashed the former always had to give way.

Moreover, we have noted with satisfaction the growing recognition by government departments of the necessity for systematic consultation with representatives of British manufacturers and traders on questions of the practical application of commercial policy. On these matters the evidence of our trade witnesses was, on the whole, more appreciative than critical, and most of such criticisms as were offered related either to some particular negotiation the result of which was considered to be disappointing, or to the alleged overlapping and want of co-ordination among the departments charged with the task of commercial diplomacy. With the former class of complaints

we do not propose to deal. It is obvious that the best system in the world cannot guarantee success in any particular case, or avoid causing disappointment to some of the parties interested. We have, however, obtained explanations with regard to every specific complaint of any importance addressed to us, and we have satisfied ourselves that many of these criticisms were based either on misunderstanding, or on a failure to realise the complexity of conditions by which State action must necessarily be governed and limited. Any real deficiencies or errors that have been indicated have not in our judgment been more numerous and serious than are likely to arise under any form of organisation.

Division of functions among Government Departments.

The complaint of over-lapping and imperfect co-ordination among the different departments is a very old one, though it continually takes new forms. Broadly speaking, however, we are satisfied that under the present organisation of the public services, there is less ground for the complaint than in pre-war times. As we understand the matter, the responsibility for all negotiations with foreign countries rests with the Foreign Office, while the corresponding responsibility in respect of the dominions and colonies rests with the Dominion and Colonial Departments respectively. Departmental responsibility for British commercial policy lies with the Board of Trade, which is the official mouthpiece of British trade interests in all matters of commercial relations, and the accepted adviser of all the above departments as to the commercial bearings of any proposed negotiation or representation. Finally, responsibility for the collection, digestion and supply of information as to commercial conditions affecting overseas trade has (for reasons given on p. 171) been delegated by the Foreign Office on the one hand and the Board of Trade on the other to the joint "Department of Overseas Trade." This semi-independent department has no direct concern with commercial policy or relations, and its main activities are discussed in another section of this Report (see pp. 171–3). Nevertheless, it plays an important part in regard to commercial negotiations by supplying the parent departments with a continual stream of relevant data, and by the organisation and direction of the British commercial services in overseas countries.

At first sight the system above described may seem unduly complicated and likely to lead both to over-lapping and to failure of co-ordination. A careful examination of the problem, however, has convinced us that this view is not well founded. We are of opinion that the sub-division of functions among different departments is unavoidable in practice, and that the present allocation of responsibilities is reasonable in principle. Of course, where any type of organisation, whether in the form of a business undertaking or of an

official service, is sufficiently large in scale to require to be departmentalised, there is always a certain tendency to weakness at the points of contact between the different sub-departments, and it needs constant vigilance to prevent border-line duties from being either duplicated or neglected. We are, however, assured that the personal contact and co-operation between the responsible officers of the departments mentioned above for the purposes of commercial negotiation is now so much closer than in the past, that the danger of imperfect co-ordination is not appreciably greater under the present system than it would be if they were grouped under the same political head.

Nor do we see how any attempt to concentrate responsibility for all aspects of commercial diplomacy in a single department of State could possibly succeed. Apart from the fact that any such proposal would re-open old controversies and rivalries which have now happily died down, the idea itself appears to us unsound in principle. For, subject to the supreme authority of Parliament, the management of relations with foreign countries must necessarily be vested in the Foreign Office, while the formulation of commercial policy must be the function of the Board of Trade as the department which deals with commerce and industry. As neither of these departments can absorb the other, it follows that the problem of responsibility for commercial diplomacy must be solved by their intimate co-operation, rather than by their amalgamation.

Relations of Departments with the trades and with one another.

It has been suggested to us in evidence that standing committees of commercial experts should be constituted both at home and in the principal commercial countries to advise the Board of Trade and the heads of British oversea missions respectively with regard to any commercial negotiations with which they may be concerned. After very careful consideration we are not able to endorse either of these recommendations. We believe that the interests of British industry and trade are more likely to be well served by consultation between the Board of Trade and trade experts, selected *ad hoc* for their special knowledge of each particular commercial problem, than by consultation with a standing committee the members of which, however eminent and carefully chosen, could not possess that first hand, detailed and up-to-date knowledge of each problem referred to them which is essential to the successful conduct of a commercial negotiation. No doubt a standing advisory committee could apply to the trades for data which were not within the personal knowledge of its members, but experience shows that traders are sometimes less willing to furnish confidential information about their business to a committee of traders than directly to a government department.

It need hardly be said that we do not in any way under-rate the value of the existing Advisory Council of the Board of Trade, which performs very important services. The functions, however, of this Council are wholly different from that of a Committee designed to advise on a particular commercial negotiation.

The proposal that British chambers of commerce in foreign countries should set up standing committees to advise the British Ambassador or Minister is still more open to criticism. Admittedly the interests of members of these chambers in foreign countries are not always identical with those of British traders and manufacturers at home. Both points of view are, of course, important, and there should be (as we believe there is) close touch between members of the commercial-diplomatic service and the British chambers of commerce in their areas, in order to ensure that the competent department of State may be fully informed of the views held by British business men on the spot. But these views can rarely be decisive, and where they clash with those of the home manufacturer and trader they must generally give way. Hence we hold as a matter of principle that the body by which the head of a British Mission abroad ought to be guided in matters of commercial policy must be the Board of Trade, which, acting in close consultation with the commercial and industrial interests concerned, is the only body in a position to appreciate the economic situation as a whole in the light of all the available data.

We understand that in some recent commercial negotiations the Board of Trade have, by arrangement with the Foreign Office, sent an officer abroad to collaborate with the Embassy or Legation, and that in other cases, where the negotiation has been carried on in London, the Commercial Articles have in practice been discussed and settled at the Board of Trade, in the presence of a Foreign Office representative. We heartily commend all such methods as affording evidence of a welcome spirit of intimate co-operation which naturally takes different forms suited to the varying nature and conditions of the particular problems which arise.

We are also glad to see that the practice of collaboration between departments of State and representatives of British commerce and industry has not in recent years been limited to consultations in this country, but that representative commercial and industrial experts have been attached as advisers or members of official delegations appointed to participate in negotiations abroad, particularly in the case of international Conferences and Conventions. There is ample evidence of the great value of this form of collaboration, and we hope that it will become a settled and permanent practice. The advantage is two-fold, not only in affording valuable and prompt advice and information to the official delegates, but also in giving the commercial community a better insight into the practical difficulties of trade diplomacy.

Some governing principles affecting commercial diplomacy.

While, for the reasons already given, we are unable to support any of the proposals put before us by trade witnesses for a substantial change in the present machinery and procedure for trade negotiation, there are certain governing principles which appear to us to be of cardinal importance in relation to the whole matter, and which we desire very strongly to emphasise.

(i) It is of the first importance that the vital significance of British overseas commerce to the national economy and life should be thoroughly realised by all the responsible officers of the diplomatic service, as well as by those of the home departments concerned. Great as is the immediate advantage to trade arising from the present specialised system of commercial overseas services, it might in the long run prove to be dearly bought if it operated to diminish the personal interest taken in commercial matters by the heads of Missions and by the diplomatic services generally. The new system (which is discussed on pp. 171–3) has not as yet been in force long enough to enable its full effects on the diplomatic service as a whole to manifest themselves. But we should fail in our duty if we did not represent most strongly that British trade interests in foreign countries cannot be adequately safeguarded unless each Ambassador or Minister is personally imbued with a real sense of their importance.

Having laid down this principle we should prefer to leave its detailed application to be worked out by the departments concerned. Nevertheless, we venture to throw out one tentative suggestion for their examination. It appears to us very desirable that every member of the diplomatic service should at a comparatively early stage in his career serve for a sufficient period on the staff of the commercial-diplomatic officer to acquire some practical insight into current commercial work. It is to be remembered that most of the existing heads of Missions have had in the past some experience of this kind when occupying junior positions in the service; but if the whole commercial work of the Mission be in future concentrated in one specialised branch of the service, it is possible that future heads of Missions will have served no similar apprenticeship.

(ii) We have said above that there is a growing appreciation on the part of the Board of Trade of the necessity of systematic consultation with representatives of trade and industry, and that we are unable, on the evidence before us, to recommend any material departure from the procedure at present followed for this purpose. We think, however, that steps should be taken to ensure that the cordial relations which have grown up between the department and the trades should be permanently maintained irrespective of changes of personnel on both sides. What is needed on the part of H.M.

Government is the establishment of a firm tradition that Presidents and high officers of the Board of Trade shall in respect of all important questions of trade relations take the representative leaders of trade and industry so far as practicable into real confidence, at a stage early enough to make consultation fruitful. On the part of the commercial and industrial community there is a corresponding obligation to respect and justify that confidence, and to give to H.M. Government ungrudgingly of their best. This demands not only the strengthening of the organs of trade association, but also a readiness to appreciate and make due allowance for possible difficulties of an international or political character, which cannot always be disclosed, but which may seriously hamper the work and limit the success of the best equipped commercial-diplomat.

(iii) What has been said above applies not only to ordinary commercial negotiations with a single foreign government, but also to the collective or "multilateral" negotiations which have acquired a greatly increased importance since the establishment of the League of Nations, with its Financial, Economic and Transit Sections, and the allied International Labour Office. In respect, however, of these international negotiations, there is one very important point which we desire to emphasise, because we think that it tends to be imperfectly appreciated, not only by government departments, but at least equally by the British commercial and industrial community. The time is long past when it could be thought possible for Great Britain to impose its own commercial legislation, or administrative and legal procedure, or trade methods and practices, upon other countries. If, in our own interests, we seek to induce other countries to conform more closely than at present to British practice, it is an inevitable corollary that we should show willingness to go some distance towards meeting their points of view, provided of course that no essential British interest is thereby jeopardised. The fact that a British practice which it is proposed for this purpose to modify in minor points has hitherto given us complete satisfaction is not in itself a final argument against change, if in return we can secure a more than compensating advantage. It is extraordinarily difficult, however, to induce traders, officials, and (perhaps especially) legal authorities to adapt their minds to this broader point of view. It is not necessary to mention particular cases in which desirable international agreements have been thwarted or postponed by lack of vision and sense of relative values, on the part of those by whom the decisions had to be taken. We only desire to emphasise the fact that all negotiations have two sides, and that, without some willingness to make sacrifices in minor matters no great successes of commercial diplomacy are to be expected.

It is only fair to add that the narrowness of outlook here referred to is by no means specially characteristic of Great Britain.

(4) Political Obstacles to Overseas Trade.

Before leaving the subject of access to overseas markets and of commercial diplomacy as an instrument for its maintenance and enlargement, we must refer, though very briefly, to a class of obstacles to international trade which arise out of political conditions, and which, while these conditions last, are usually beyond the power of any trade negotiator to overcome. Recent years, and especially the post-war period, have furnished an exceptionally heavy list of disturbing factors of this kind.

Such for example are the disastrous effects on our means of access to Chinese markets of the chaotic conditions due to the exhausting civil wars and dissensions by which China has for so long been disturbed. The anti-European or anti-British "boycotts" have only had temporary effects, though while they lasted these effects were acute. But the impoverishment of the country, the absence of security, and the long continued dislocation of normal business relations have offered, and still offer, a much more serious obstacle to trade than the sporadic outbursts of anti-foreign feeling. Nor is China the only country in which abnormal political conditions have recently played a more or less important part in impeding British overseas trade. There is no doubt, for example, that British trade suffers from the political and economic isolation of the Soviet Republic. Even within the British Empire, the attempted boycott of imported goods in India had at one time an appreciable effect on British trade. On the whole, however, the political factors affecting British trade with other parts of the Empire have been markedly favourable.

Much more important in its influence both actual and prospective in deflecting the normal course of international trade than any of the above factors is the war legacy of international indebtedness, and in particular the reparation arrangements embodied in the so-called "Dawes plan." The eventual results of the operation of this scheme in creating a forced export of goods in order to meet reparation payments have not fully manifested themselves, owing to the borrowing operations by which the earlier instalments of reparation payments have been discharged. If we do not enter more fully into the details of this intricate question, it is not because we do not appreciate its importance in relation to the future flow of overseas trade. We feel, however, that we are here in the presence of a grave international problem, involving first-class political issues which far transcend the limits of our reference. Nor could the effects of reparation payments on British trade be appreciably modified by any unilateral action on the part of H.M. Government, since they arise from the general war settlement and involve other claimants besides this country. In the circumstances we can do no more than note the important reaction

which the discharge of these and similar obligations is bound to have on the distribution of international trade, and welcome warmly the fresh effort now being made to arrive at a complete and permanent settlement which will at least remove the uncertainty of the present situation.

SECTION IV.

ACCESS TO MEANS OF PRODUCTION.

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IV. ACCESS TO MEANS OF PRODUCTION.

(1) Some Preliminary Considerations.

Having now surveyed the conditions of entry of British trade into overseas markets as affected by the economic situation and commercial policy of the countries with which the trade is carried on, we may pass to the major problem of our inquiry, that is, the conditions of British competitive power as determined by factors arising in this country.

It is common to describe these conditions as twofold—high efficiency and low cost of production. Those who make this distinction use the expression "efficiency" as referring to such factors as the completeness and perfection of material equipment or physical and geographical advantage, together with high technical capacity on the part of the directing and operating staff. If the term be used in this sense, the distinction drawn between "efficiency" and "cost" is sometimes convenient for the purpose of a provisional analysis. If, however, as often happens, this antithesis is mistaken for fundamental independence, it is apt to lead to misleading conclusions and sometimes to disastrous consequences.

Undoubtedly there is a sense in which "efficiency" may be regarded as independent of "cost," i.e., as meaning the absolute power to achieve an end irrespective of the expense incurred. Such a quality is of the very highest importance in circumstances of national emergency when commercial cost is relatively immaterial, and it has always an important significance in relation to the production of articles of luxury or of fine art. Viewed, however, in connection with the main subject matter of the present inquiry, i.e., the maintenance and increase of British overseas trade, "efficiency" is not an absolute but a relative expression, and must always be regarded as strictly correlative to "cost." In fact, these two terms are but the expression of the conditions of competitive power viewed from two different angles.

If, however, business efficiency is inseparably related to cost, so also the question of reducing costs must always be thought of in terms of business efficiency. Mere reduction of expenses, whether through cutting down salaries and wages, or lowering the quality of materials, or curtailing expenditure on research or on selling organisation, may be the very reverse of true economy. It is, in fact, a criterion of high business capacity to be able to distinguish unerringly between true and false methods of reducing costs.

Bearing in mind these fundamental conditions, we propose in the following chapters to review in turn some of the more important items which enter into the cost of production, and to examine the relation of each item to the general problem of increasing the competitive power of British industry especially in relation to overseas trade.

(2) Access to Materials.

Introductory.

The analysis of costs of production in a previous volume* shews that the cost of materials forms a very important though very varying item in the total cost of production of our manufacturing industries. For example, materials account for between 80 and 90 per cent. of the total cost of pig iron and steel ingots between 60 and 70 per cent. of the cost of producing tinplates and wire, from 35 to 75 per cent. of cost in the engineering industry, between 70 and 80 per cent. of that in cotton spinning and weaving, and from 55 to 65 of that in the manufacture of clothing and of boots and shoes. Figures such as these must not of course be understood as meaning that more than half of the net value of British manufacturing output, as a whole, is represented by the value of the original materials used, since that value may be repeated over and over again in the cost accounts of the undertakings which carry on the successive processes of transforming the materials into the finished product. How great this duplication is may be gathered from the results of the last Census of Production, which shewed that less than 40 per cent. of the aggregate cost of materials used represented the value of the materials in the form in which they originally entered into British industry.

Nevertheless, it is abundantly clear that it is of vital importance that British industries should have free access to adequate and regular supplies of materials at prices which enable their products to compete economically both in home and overseas markets. We have, therefore, to ask ourselves how far this access is at present effective and adequate, or how far it is obstructed by removable obstacles.

The importance of this inquiry is increased by the fact that the majority of our exporting industries depend wholly or mainly on imported materials. In 1927 the value of raw materials of industry (i.e., the articles classified in the Trade Accounts as " raw materials and articles wholly or mainly unmanufactured ") imported into this country reached the colossal total of £280 millions, after deducting the amount re-exported. If reduced to the values of 1913 they amounted to £212 millions compared with £206 millions in that year. This shows an increase in volume (as distinct from value) of about 3 per cent.

Practically the whole of our supplies of jute, about four fifths of our imports of wool and of rubber, three quarters of our imports of nuts and kernels, and half our imports of hides are contributed by the Empire. On the other hand, the proportion of cotton and of wood pulp obtained from the Empire is only about one-tenth, and of timber one-twentieth ; while imports of iron ore and petroleum are almost wholly derived from foreign countries.

* See " Further Factors in Industrial and Commercial Efficiency," pp. 69–108.

Obstacles to importation.

So far as concerns artificial obstacles, we find on the evidence before us that with very few exceptions the free flow of materials of industry to our ports is not to any substantial extent obstructed by artificial obstacles such as tariff duties or Customs restrictions either in this country or in the countries from which we draw our supplies. As regards this country, the only important exceptions are afforded by dyestuffs (the special case of which is separately discussed on pages 291–3 and silk. In no important case is the export of raw materials to Great Britain subject to any adverse discrimination in the matter of Customs treatment at the source of supply. It is true that an appreciable proportion, perhaps a quarter, of our total imports of materials, measured by value, were in 1927 subject to some kind of duty or restriction in the country of origin, but this statement by itself gives a very false impression of the situation. Of the above-mentioned quarter, a large proportion consists of goods (like Egyptian cotton) subjected to low uniform rates of export duty for revenue purposes which have practically no effect on our trade, while another large part is accounted for by the rubber restrictions which were originally imposed in the interests of stability and have now been removed. The export of hides and skins and of scrap metal from many European countries is subject to restrictions. On the whole, however, throughout the trade evidence which we received, there were very few complaints that access to raw materials is impeded by any artificial barriers. The enormous mass of essential materials which this country imports reaches the industries which use it with the minimum of difficulty, delay and cost. For not only is there, with rare exceptions, no obstruction by Customs duties and examination, but as has been shown in the chapter on Transport Facilities in our volume "Further Factors in Industrial and Commercial Efficiency" (pp. 196–226), a very high proportion of the industrial population of the country, and of its great exporting trades, are grouped within a comparatively short distance of the principal ports of entry.

Nor is there any kind of discrimination between the treatment of ships of different flags in British ports, so that we enjoy complete freedom of access to the shipping of the whole world to bring to our shores the materials which industry requires. If the rates of carriage of materials from the ports to the works are in some cases higher than those paid under similar conditions by our foreign competitors, this difference is partly offset by the shorter average distance of our main exporting industries from the ports.* Moreover, road transport is to a greater and greater extent competing with transport by rail.

* See "Further Factors in Industrial and Commercial Efficiency," pp. 196–226.

In all the above respects, save possibly railway rates, British industry is favourably placed in comparison with its chief overseas competitors, some of which, moreover, are at least equally dependent on imported materials. There is no case, so far as we are aware, in which such competitors have a preferential position as compared with this country in the matter of free and economical access to overseas supplies of materials, while some of them are handicapped by unwise restrictions imposed by themselves in the supposed interest of their national shipping.

Considerations affecting particular materials.

In spite, however, of these comparative advantages, the situation of several British exporting industries in respect of raw materials is far from being free from anxiety. The mere extent to which these islands are dependent on overseas supplies is itself a handicap, in comparison with the situation of a manufacturing country in which abundant materials are produced side by side with the using industries. Moreover, several of the most essential materials for British export industry are peculiarly subject to variations in the natural conditions of their supply, and to consequent wide fluctuations of their cost, while the great difficulty of forecasting the future position introduces an element of uncertainty and instability into some of the principal exporting trades.

Cotton.

For example, the most important section of the Lancashire cotton industry is dependent to an overwhelming extent on imports of raw cotton from America. It is thus at the mercy of all the climatic and other factors (such for example as the prevalence of insect pests, or the northward movement of the negro population following the restriction of immigration) which during the post-war period caused the American crop to vary from less than 8½ to over 19 million bales in different years. An additional source of anxiety is the increasing proportion of the American crop which is absorbed by home manufacture. All these sources of irregularity have been reflected in the wide variations in the average price of American "middling" cotton, which has ranged from an annual average of 8·15*d.* to 17·66*d.* per lb. during the last five years.

Under such conditions some measure of self-protection is essential against fluctuations in the cost of materials, as between the time when they are purchased and the time when the manufactured article has to be marketed. Such protection is afforded by the highly organised system of the cotton futures market, which, so far from being, as is sometimes ignorantly supposed, merely a form of gambling injurious to trade, is in reality an absolutely necessary method of insurance for cotton users against risks that cannot be guarded against by other means.

The risks thus covered, however, are only the short period fluctuations. Long period changes in the conditions of supply can only be met by developing fresh and varied sources. The efforts of the British Cotton Growing Association and of the Empire Cotton Growing Corporation for this purpose have been referred to briefly in our "Survey of Textile Industries" (pp. 79–81). Such efforts are worthy of the greatest praise and encouragement, and we are strongly of opinion that they should be consistently supported on the part of H.M. Government by all those necessary measures (e.g., the development of transport facilities in overseas colonies and territories) without which cotton growing is not economically possible, and which only a Government is able to take. We have already indicated in an interim communication addressed to you as Prime Minister* our strong sense of the urgent need for such transport development in East Africa, and we are glad to know that action is being taken on the lines which we desired. We do not think it necessary in this Report to enumerate other specific cases in which we think Government action is immediately required. Each case must undoubtedly be judged on its merits, having regard to all the prevailing conditions, political, financial and social, all of which may not be within our knowledge. We prefer therefore to make our recommendation in quite general terms.

The opening up of fresh sources of cotton supply in new countries is a matter that cannot be hurried; it depends on a large number of factors besides those to which reference is made above, e.g., the development of ports and shipping communications, the training of experts in cotton-growing problems, and the willingness of the Lancashire cotton-using trades to give continuous support to the infant cotton-growing experiments. It is natural that Lancashire users should be most keenly interested in the new cotton fields when American cotton is scarce and its price high. If, however, their interest in the new efforts wanes as soon as a market change has for the moment made easier the conditions of supply of American cotton, it is clear that there can be no stable basis for the development of new sources of supply. We are aware that those concerned with promoting Empire cotton-growing are fully alive to all these aspects of the problem, and we content ourselves with this passing reference to a difficulty which is only one of many illustrations of the necessity of taking longer views of trade requirements. Should the present tendency towards large amalgamations in the cotton trade become effective, it is perhaps not too much to hope that the larger units thus formed will see more clearly and with longer vision their duty and interest in this matter.

One subsidiary point may be mentioned in this connection, i.e., the difficulty experienced in obtaining recognition for the produce

* Memorandum on Transport Development and Cotton Growing in East Africa. Cmd. 2463/1925.

of the new Empire cotton fields as acceptable tender against corresponding grades of American cotton in the " futures " market. The points involved are highly technical, and the views held by Manchester and Liverpool appear to have differed materially. We do not desire to enter into the merits of these complicated discussions, but in view of the great importance of free access to the cotton futures market we are glad to see that since the date on which we received evidence on the subject a futures market in " Empire and Miscellaneous " cotton has been opened. Though this does not completely meet the wishes of Manchester, it is recognised as a step in the right direction, and we earnestly trust that any differences that remain may be satisfactorily adjusted, so that the new Empire cotton fields may have every chance of successful development.

We have dwelt at length on the difficulties of cotton supply, because these difficulties are perhaps greater than in the case of any other staple industry. No other great industry is so dependent on its competitive strength in overseas markets for the disposal of its products, and no other great industry is so dependent on a single source for obtaining the bulk of its materials.

Wool and other materials.

The evils of fluctuating supply and prices of materials, however, affect, more or less, many other British manufacturing industries. For example, in the last seven years the average yearly price of wool " tops "* at Bradford has varied from 13·5*d.* to 27·75*d.*, and the average import value of raw wool has varied from 12·78*d.* to 23·71*d.* per lb. Of course, the fluctuations of market prices of wool have been even sharper. In this case the greatest sources of supply are within the British Empire, the only very important foreign source of supply being South America. But the conditions of wool supply, besides being deeply affected by climatic conditions and rainfall in the producing countries, are also subject to special causes of perturbation through such factors as the inverse connection between wool and mutton growing. In the past five years the Australian clip has varied from 661 million lbs. in 1924 to 924 million lbs. in 1927.

We do not think it necessary in this Report to describe in detail the special conditions and difficulties of each trade as regards its supply of materials. So far as concerns the chief exporting trades, these matters are dealt with in detail in our Surveys of the metal and textile industries. It is evident that in this respect the requirements of no two trades are alike, and the practical problems to which they give rise must in the main be left to the trades themselves to solve.

* 40's prepared.

Collective purchase.

We must however refer to one expedient which has been sometimes recommended for overcoming or diminishing the difficulties of regular supply, that is, the organisation of machinery for collective purchase of materials. So far as this method has been tried within the trades themselves, the evidence before us does not point to any marked degree of success, except perhaps in the case of the co-operative movement, where the system of collective bulk purchase, especially of foodstuffs, has been developed to a high point through the mechanism of the co-operative wholesale societies.

It has, however, been suggested that the duty of collective purchase of essential materials might with advantage be undertaken by the State, and that such a scheme might obviate or mitigate some of the difficulties now caused to industry by the uncertainty of supply and wide fluctuations in price of essential raw materials. In support of this contention appeal has been made to the experience of State purchase of essential supplies during the Great War.

This suggestion (for no detailed plan has been submitted to us) has to be considered from the two points of view of practicability and effectiveness. As regards the former point, we are of opinion that no scheme of State purchase would be workable without a State monopoly. Any plan that involved competition for supplies between the State as a buyer and private importers would accentuate the uncertainty of the situation. For the same reason we think that any State purchasing scheme would have to extend its operations to supplies from all sources—home as well as overseas—and it is to be remembered that in the case of many staple raw materials there is an appreciable home supply. It would be difficult to restrict the operation of such a scheme to a few arbitrarily selected articles, and it must therefore be considered as potentially applicable to all classes of essential materials and foodstuffs, or at least to those classes of which the supply presents cause for anxiety.

It appears to us that Government action of this kind and on so great a scale would necessarily involve a degree of national responsibility for the industries dependent on the materials purchased, which makes it difficult to treat the proposal as an isolated measure capable of being fitted into the existing system of competitive industry. It is rather to be regarded as an integral part of a general policy of industrial nationalisation. Looked at purely as a means of assisting a particular trade by safeguarding its supplies of materials within the ambit of the present competitive industrial system, the project of State purchase is open to serious criticisms, of which not the least formidable is the probability that the supplying countries, faced by a State buying monopoly in one of their principal markets, would seek and obtain the means of protecting their own interests either by way of export combinations or selling monopolies, or by some other method which might make the position of the British manufacturer and user more precarious than before.

The problem of the supply of raw materials for industry under commercial conditions, i.e., at a cost which will make it possible for the industry to sell its products in overseas markets, offers a good illustration of the extreme caution that is necessary in applying war-time experience to the conditions of competitive trade in times of peace. During the war the essential problem which overshadowed all others was the securing of abundant supplies of necessary food-stuffs and materials. The cost of such supplies was a secondary consideration. The governing conditions, however, of the problem which we have now to face are wholly different, and it would be most unsafe to draw conclusions from the operation of war-time controls, when competitive conditions were practically suspended, as to the results to our trade position which would follow from the establishment of corresponding machinery in normal times.

(3) Access to Capital and Financial Facilities.

Introductory.

In the expansion of modern industry the use of capital, both for buildings, works, plant and equipment and for current working purposes, has been a factor of continually increasing importance, and it follows that free access to an abundant supply of capital on reasonable terms is an essential element in competitive power. British industrial undertakings as at present organised obtain the bulk of the supply of capital which they need (in addition to that which results from their own undistributed earnings) in two main ways, (1) from the subscriptions of share and debenture holders, and (2) from banks and similar financial institutions.

In the main, the fixed capital, represented by buildings, works, plant and equipment, is found by share and debenture holders, and partly also, in the cotton-spinning trade, by depositors; whilst working capital is provided in part from the same sources, supplemented by loans in one form or another from banks and other financial institutions. It is necessary to have in mind the widely differing conditions under which capital is provided from these sources. That subscribed for shares is in no sense a loan to the company, but, although expressed in money, represents in fact the acquisition of a fraction in the undertaking which entitles the subscriber only to a given proportion of such profits as may be earned whilst the company is a going concern, and of its " surplus assets " when it is dissolved. On the other hand, capital provided by debenture holders, depositors, banks and other financial institutions is money borrowed and repayable as such by the undertaking; and the lenders of such capital are entitled to receive only the stipulated rate of interest. They are not entitled to participate in the profits made, and they do not anticipate having to bear the losses incurred, in the conduct of the business.

Needless to say, the amount of new capital which can be secured by industry through both these channels depends mainly on the volume of the national savings annually available for industrial purposes, and this applies equally to the new capital employed in their business by private firms not organised as limited companies.

Export of capital.

In view of the fact that a substantial part of British capital accumulations normally finds investment overseas, it is desirable to consider briefly the effect on British industry and trade of this export of capital. To some extent the amount thus invested overseas may be regarded as a surplus after meeting home requirements, which, *ceteris paribus*, have first pull on the available supplies of capital. The home and foreign demands, however, are also partially competitive.

The advantages derived from the export of capital in the past are clear. Had it not been for the development of food and raw material production and of the means of transport in many parts of the world, Great Britain would have been quite unable to support her present population at anything like the existing standard of living. It is true that the advantage which thus results from the export of capital may to a considerable extent be temporary, since the industrial development of other countries may ultimately cause increased demand for their own home products in those countries. This fact, however, tends to emphasize the necessity for continued investment of British capital in new areas overseas in order to safeguard the position of this country in the future. We think it would be dangerous, even if on other grounds it were practicable or desirable, for Great Britain to abdicate its function as an investing country, and to rely, for example, upon American capital for the pioneer work which is necessary in many parts of the world if our future supplies are to be ensured.

Account must be taken of the intimate connection between finance and trade. Export of capital involves such an adjustment of our international trading account that the aggregate value of all exports (visible and invisible) exceeds the value of all imports (visible and invisible); and it may also involve a disproportionate development of particular exporting industries (e.g., iron and steel or engineering). A feature of the post-war industrial situation of Great Britain has been a heavy decline in the export of capital, a decline which we are disposed to regard as being at the present time more an effect than a cause of depression in our export trade (see page 264). It seems clear to us that full employment in our exporting industries, having regard to their character and extent, can only be attained in the near future if there is a substantial increase in the export of capital.

For the reasons referred to above we are not prepared to recommend any general restriction of the amount of capital exported. We have considered also whether it would be practicable or desirable to control or direct the flow of British capital in order to prevent it from being used for particular purposes which are thought prejudicial to the best interests of this country, or to stimulate its use for purposes which are considered advantageous to British industry and trade. The practical difficulties attendant on any such scheme would be very great, and our opinion is that the disadvantages which would result from such an attempt to control or direct the flow would outweigh the advantages.

Growth of limited companies.

We may now revert to the first of the two methods mentioned above by which British industrial undertakings obtain the supply of capital which they need, viz., from the subscriptions of share and debenture holders.

If it had not been for the development of companies with limited liability towards the middle of the nineteenth century, there would have been great difficulty in meeting the growing financial needs of modern enterprise, and without this assistance many of the great mechanical inventions by which the technique of industry and transport was then being transformed might have remained undeveloped and commercially unfruitful.

The growth of limited companies, which played such a large part in industrial development, drew attention from time to time to various difficulties and possibilities of abuse, which had to be met by successive revisions of the Companies Acts. We do not think it necessary to enter into the technical details of company law and practice, inasmuch as since our appointment the whole matter has been reviewed by an expert committee on company law, whose recommendations, published in 1926, have now been embodied in the Companies Act, 1928.

Such criticisms and suggestions as we have received of the working of the Companies Acts have related to such questions as publicity, over-capitalisation, combinations and other incidental matters, but no one has suggested that the Acts do not successfully fulfil their prime purpose of widening the area from which capital may be drawn into business enterprise. They have made available for employment in industry and trade both small and large individual savings, and they have provided, through the medium of debentures and of preference and ordinary shares, methods by which the individual investor may elect either to obtain the maximum of security at agreed rates of dividend or interest, or the fullest possible participation in profits as against the chances of losses. The mere fact that the paid-up capital of joint stock companies in Great Britain increased from £482 millions in

1885 to £4,470 millions in 1925 (i.e., more than five fold even after allowing for the change in the value of money) is of itself sufficient testimony to the efficacy of the " limited liability " principle. Nor has it been suggested to us that the laws of any competing country provide better or greater facilities for the investment of capital in business enterprise.

Finance of cotton-spinning mills.

Reference has been made above to the practice prevailing in the cotton-spinning industry of financing mills partly by loans made by depositors, such depositors including a large number of mill operatives and local tradespeople. As was pointed out in " Further Factors in Industrial and Commercial Efficiency " (pp. 175–6), this system, whatever may have been its merits at the time when it first grew up, presents great dangers under modern conditions, since it is contrary to the principles of sound finance to use loans repayable at short notice for the purpose of fixed capital. As explained in our " Survey of Textile Industries " (pp. 36–8), the essential weakness and unfortunate consequences of the system have become more and more apparent during the present prolonged depression in the cotton trade, and we consider that steps ought to be taken by the industry to obviate these dangers in the future.

Banking facilities and bank amalgamations.

We now turn to the second branch of the subject, viz., the supply of loan capital, including credit and financial facilities generally, to industry by the banks and other financial institutions.

The organisation and development of joint stock banks under the Companies Acts has placed at the disposal of business enterprise not only their own capital but also a large part of the deposits made with them. These deposits represent not only savings, but also money temporarily at the disposal of undertakings of all kinds. In total such deposits are very large, those held by the London Clearing banks at present averaging about £1,800 millions; but in the main they are repayable on demand, and therefore can only be prudently utilised as temporary loans against undoubted security, and not for investment in business enterprises.

Besides making advances to particular undertakings, the banks and other financial institutions play a most important part in assisting industry and trade as a whole by such means as financing the movement of raw materials and the distribution of manufactured goods. Indeed, it is estimated that the movement of the great bulk of commodities to and from this country is so financed, and we are satisfied that no competing country has at its disposal greater financial facilities of this general character.

The weight of the evidence of representative traders and trade associations was to the effect that there is no lack of loan capital available for the use of British industry, at moderate rates of interest, provided that reasonable security is forthcoming. Generally speaking, and with certain exceptions noted below, the testimony of the traders was that the facilities provided by the banks to industry are satisfactory, and many witnesses expressed the view that industry is better served by the great amalgamated banks than was the case before the amalgamations took place. It is true that this view was not unanimous, and the opinion was expressed by some witnesses that bank amalgamation has led to the standardising of the rules governing bank advances and has been unfavourable to local elasticity. Certain complaints were also made of the reluctance of the ordinary joint stock banks to discount foreign bills, and of the inadequacy of the facilities available for financing long-term business, a point to which we return on page 48. The last-mentioned complaint is not a reflection on the joint stock banks, which do not, and in our opinion ought not to, lock up their depositors' money for long periods of time. It rather points to a gap in the machinery available for the financing of industry.

Nor is the complaint of the reluctance of the ordinary joint stock banks to discount foreign bills a really valid criticism of the present practice of these banks, as compared with that which they pursued in the pre-amalgamation period. We are assured that before the war many of the ordinary joint stock banks handled this business to a moderate extent only. It was then, as it is now, carried on mainly by the accepting houses and by a class of banking institutions which specialise on trade with particular groups of overseas countries (e.g., South America, India, the Far East, etc.). Such change as has taken place in recent years appears to have been in the direction of greater and not less participation in this class of business by the ordinary joint stock banks. In these circumstances, the complaint made to us appears to have been based on imperfect knowledge of the facilities available.

The last of the specific complaints made to us as to the results of bank amalgamations is that the rules governing the making of advances have been standardised, that the local bank manager has no longer the same discretion as in the past to lend upon personal knowledge of character and local conditions, and that the decision of questions of advances is more and more centralised in London.

It should be said at once that this complaint was by no means generally made by the trade witnesses who appeared before us. On the contrary, the general trend of the evidence was that on the whole industry is better served by the banks than before the amalgamations, provided of course that reasonable security is available. No doubt the real trouble is that the greater part of the period which has elapsed since the amalgamations has been marked by a prolonged

depression of trade, and a consequent heavy fall in the average rate of profit on industrial undertakings, which circumstances have greatly impaired the power of certain industries either to obtain more capital from the public or to offer attractive security for bank advances. That a distressed industry to-day cannot obtain as good financial facilities as the same industry in the former days of its prosperity is no reflection on the effects of bank amalgamations. On the contrary, the evidence before us gives a good deal of support to the view that, without amalgamation, the power of the banks to give support to industry would have been considerably less than at present, especially in view of the increased size of the average business unit.

It would be a natural effect of enlarging the unit of banking business that the general principles on which advances are made should become more carefully co-ordinated and more uniformly applied. Such a change is by no means generally to the disadvantage of sound business, for the attractive phrase " local elasticity " sometimes in the past covered undesirable preferences and personal discriminations. According to our information, however, it is not the case that local managers have been deprived of discretion to act (of course within limits) on their own knowledge of local conditions and personal character.

We find, therefore, that on the whole, and subject to certain exceptions noted below, the existing machinery for supplying British industry with financial facilities to meet its legitimate needs is adequate and suitable. Moreover, the evidence available shows that the rates of charge for these facilities compare favourably with those obtaining for similar services in any competing country, and that the recent bank amalgamations have not produced a bankers' monopoly or impaired the quality of the services rendered by the banks to trade.

Export credits.

The most important of the exceptions to the above statement as to the adequacy of existing financial facilities has already been alluded to, viz., the suggested absence of any adequate means of financing long term credits (say over a two to five years' period) in respect of the export of certain classes of capital goods, and the consequent difficulty in which manufacturers of such goods may find themselves, in comparison with their competitors in countries where it has been the practice for the banks to ally themselves closely with industrial enterprise and to give long-period credits. British deposit banks have always held, and we think rightly, that generally speaking it is not sound practice for them to make long-period advances, though their customers not infrequently use the current and temporary advances obtained from banks to finance the long credits which they themselves are compelled to give.

The recent growth of the demand for long-term credits, and the increased acuteness of international competition, have created a demand that the existing gap in our financial arrangements should be filled. No doubt the difficulty is mainly felt by the smaller manufacturers of goods for export, for the big manufacturers or combinations are usually strong enough to carry the finance of their own export business; and in the case of large contracts, say for building a railway or port, the well-known system of accepting payment in bonds maturing at certain fixed times is presumably available. It is the demand of the small or moderate sized business exporting goods of classes for which under present competitive conditions long-period credits are deemed essential, that in our judgment affords the main justification of the Government Export Credits Scheme, whether in its financial or its insurance aspect.

Since we took most of our evidence on the subject of that Scheme, the former procedure has been practically superseded by an "Export Credits Guarantee Scheme," which took effect in July, 1926, on the advice of a Committee (the Credit Insurance Committee) on which finance, insurance, and industry were strongly represented*. This Committee reported in effect that there is a demand "which is not unsound in character" for the insurance of credits for export trade, that this demand is not adequately met by existing facilities, and that, "provided due caution is exercised to avoid encouraging unsound business," the extension of these facilities would benefit the export trade. They drew up a scheme for such extended facilities, and recommended that it should be operated by the Government for a short transitional period which "should not continue beyond September, 1929, as far as new business is concerned."

They further reported against the adoption of proposals submitted to them for the insurance by Government of "catastrophic risks," on the ground (*inter alia*) that the evidence shewed that "catastrophic risks such as war or revolution are not factors affecting the extension of British export trade to any serious extent."

It appears from this observation that one of the primary reasons for the establishment of the original Export Credits Scheme immediately after the war is considered by the Credit Insurance Committee to have spent its force, and it is clear that the gradual stabilisation of foreign currencies has very greatly diminished, if not entirely removed, another principal ground for Government action, viz., the extreme difficulty of carrying on export business in face of violent oscillations in foreign exchange.

We are aware of the international questions that may arise when a Government takes a direct part in giving financial advantages to the export trade of its nationals. We think, therefore, that the most scrupulous care should be taken to make the conditions of guarantees

* See "Factors in Industrial and Commercial Efficiency," pp. 392–3.

or insurances such as to preclude any reasonable possibility that the scheme shall impose a burden on the taxpayer. We also think that the participation of the State in this kind of business ought to cease the moment private enterprise shows itself capable of taking over the business.

We are confirmed in this view by the reference to the matter in the Report of the recent International Economic Conference at Geneva.* As was there pointed out, the tendency of a Government scheme for affording financial facilities to overseas trade is to give rise to corresponding schemes in other countries, and it is clear that these may in some cases be so operated as to constitute a concealed subsidy to the disadvantage of British export trade.

In view of these considerations, we hope that it may not be found necessary to extend the period of State participation in the Export Credits Guarantee Scheme beyond the date (September, 1931), to which H.M. Government have already announced their intention to prolong it. We also trust that in the meantime suitable machinery will be established by private enterprise to provide any necessary assistance to trade in the matter of long-term credits.†

Absorption of capital by industry.

To avoid all possibility of misunderstanding, we desire to make it perfectly clear that the statement made above to the effect that the machinery for supplying the financial needs of industry is on the whole adequate and suitable must not be understood to imply that an adequate supply of new capital is actually being absorbed by British industry for essential purposes such as the re-conditioning and modernisation of industrial plant, buildings and equipment. On the contrary, it was shewn clearly in one of our volumes‡ that there is a great deficiency, probably in the neighbourhood of £150 millions, in the annual amount of the national savings as compared with the period just before the war, after allowing for the change of price level. In the same volume it was indicated that (after making the same allowance) the aggregate amount of trading profits has largely declined, and that there has been a great increase in the uncertainty of the results of business as shown by the much wider "dispersion" of the recorded rates of profit and loss.§ The prospect of profit is the most important security an industry can offer, both to the public as investors in its shares and debentures and to

* Report, p. 35.

† We are glad to note that since this report was drafted H.M. Government have appointed an expert committee to examine the administrative expenses of the Scheme and other matters connected therewith, and to consider what steps can be taken to facilitate the ultimate transfer of the Scheme to private enterprise.

‡ Factors in Industrial and Commercial Efficiency, p. 55.

§ Ibid, pp. 52–4.

the banks. It is clear, therefore, that, particularly in the case of the great basic industries of cotton, steel, and coal, failure in dividend-earning power has made it impossible for them to get additional capital from the general investing public, while their capacity to furnish security for advances which a bank would consider adequate has been seriously impaired. At the same time, the source from which alone new capital can be created is by no means yielding so plentiful a flow as before the war. The situation (the causes of which are discussed in other sections of this Report*) can only be expected to improve as and when the general position and prospects of British industry become more stable and satisfactory. All that can be said here is that, *given existing conditions and prospects*, the current financial requirements of industry from the existing banking system are for the most part adequately met.

Nor would any measure of bank nationalisation by itself alter in any material respect the fundamental conditions which determine the scope, limits and cost of the financial assistance that can be given to industry by banks and similar institutions if, as is usually and rightly stipulated by its advocates, such a measure were administered on a self-supporting basis without imposing a burden on the taxpayer.

At this point in our analysis it becomes evident that the problem of the insufficient capital equipment of industry merges in the wider problem of industrial recuperation, which forms the main subject of our reference.

Attitude of banks to weak undertakings.

The attitude of the joint stock banks towards the financing of industry has been also criticised from a point of view diametrically opposite to that discussed above. It has been suggested that in many cases their support has been not too niggardly but too lavish, and that injury has been done to the permanent interests of British industry and trade by the nursing of weak undertakings by the banks in the vain hope of an early recovery. These critics urge that it would have been much better to let the weaker concerns go into liquidation, and to concentrate production in the hands of the stronger, or at least the more efficiently equipped and managed, undertakings; and they contend that the action of the banks, however well intended, has only served to prolong the agony, and to delay the inevitable day of reckoning, which will be all the more serious in its economic effects for the postponement.

It cannot be doubted that injudicious assistance may do harm by bolstering up undertakings which had much better come to an end. On the other hand, it must never be forgotten that a widespread industrial collapse always has very disastrous effects on employment,

* See particularly pp. 182–4.

and that great efforts to avoid it may therefore be justified if there is any reasonable chance of success. It is easy to be wise after the event, and if it be the case that the banks have from time to time, especially in the early post-war period, taken too optimistic a view of the prospects of trade recovery, they have certainly erred in good company. In judging of the policy or impolicy of according financial assistance in any given circumstances it is impossible to lay down rules of general application. It is in fact the essence of a banker's business to form sound judgments, with a full sense of responsibility, but often on very imperfect data, of the relative merits of alternative financial policies, in their application to particular cases. All that can be said is that those who criticise the banks for not taking a stronger line must be prepared to face the inevitable suffering that would follow, at least for a time, the adoption of a more stringent policy. On the other hand, those who consider that the banks should be yet more generous in supporting industry must accept the consequence that the survival of the unfit necessarily tends to industrial deterioration and the weakening of competitive power. Certainly if in the early post-war period there had been a general restriction of bank credit instead of a general willingness to help, such an attitude on the part of the banks would have been very strongly resented by industry and trade.

No doubt, as in so many cases, the path of wisdom is somewhere between these two extremes. Probably on balance the more dangerous temptation to the banks in present circumstances is to do too much rather than too little to keep weak concerns in being. Possibly the scales have sometimes been weighted by the fear of offending valuable customers by withdrawing facilities from concerns in the preservation of which they are interested. In some degree this particular danger has been accentuated by the increase in the unit of banking business, which has greatly enlarged the circle of customers whose views a bank has to study. On the other hand, the added financial strength due to amalgamation should *pro tanto* make for independence of judgment.

Maintenance of competition among banks.

The recent gradual concentration of the principal joint stock banks into five great units naturally raises important questions of present and future banking policy. It has been indicated above that the weight of trade evidence has been that the bank amalgamations have so far been rather beneficial than harmful to industry. Undoubtedly traders have benefited from the greater financial strength of the banks by which they have been supported through a prolonged period of depression, without being subjected to any substantial disability in the way of the curtailment of services or increase in their cost. This result is due in no small measure to the fact that up to the present there has been little or no attempt on the part of the

amalgamated banks to exercise any monopoly powers, or to suppress competition by "districting" or other working agreements. On the contrary, it has actually been made a ground of criticism against the banks* that the effect of their policy of amalgamation has been to give a powerful stimulus to rivalry *inter se*, which has manifested itself in a great increase in the number of local branches, and a consequent rise in working expenses, to the detriment of profits. It will be observed that this is precisely the opposite criticism from that usually directed against combinations, viz., that they use their power to restrict facilities and increase profits. It is only right to say that the banks do not admit that the undoubted increase in their working expenses has any causal connection with amalgamation, but ascribe it to the same causes which have raised working expenses during the same period in most classes of business enterprise.

The fact that bank amalgamation has not so far resulted in any of the evils of unrestrained monopoly should not, of course, make us disregard the possible danger that some change of policy might take place, and that, either through further consolidation or through the subtler process of agreements to avoid competition, the trade of the country might find itself faced with a *de facto* banking monopoly. Against any measure of further amalgamation there is at present the protection of the Advisory Committee on Bank Amalgamations, which reports to the Treasury and Board of Trade on any proposed scheme of amalgamation, including any arrangement for control by purchase of shares or otherwise. This Committee, originally the offspring of war conditions, has no statutory powers, but it still continues in being, and it is the settled practice of the British banks to submit to it all schemes of the above nature. We are assured that no important banking amalgamation could in practice be carried through in defiance of an adverse report by this Committee, and that there is no prospect of the Committee agreeing to any new proposal for amalgamation in any form between two or more of the present great banking systems, or between any of them and a smaller bank.

We feel strongly that the maintenance of effective competition among the banks in respect of the financial facilities supplied by them to industry is a matter of national importance. We have no reason to suppose that this competition is in any immediate danger. We think, however, that the matter should be carefully watched, so that if ever there should be signs of the development of a banking monopoly, or indications of any disposition on the part of any of the banks to refrain from consulting the Treasury Committee or to disregard the decisions based on its advice, the appropriate measures might be taken without delay for the protection of the public interests.

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* See article on "The Effect of English Bank Amalgamations on Working Expenses and Profits" in the Economic Journal, Dec., 1925.

Banking statistics.

It has been strongly represented to us that the statistics published by the joint stock banks afford insufficient information with regard to their transactions to enable the public to follow the course of the financial situation. We agree with this view, and we are strongly impressed with the necessity of greater publicity, especially in view of the important indication furnished by movements of banking business with regard to the general trend and prospects of trade and industry. This matter has, we believe, engaged the attention of the Board of Trade, and proposals have been framed for legislation, which, however, have not up to the present made much progress. We think that the question should be further pursued, and we strongly recommend that the periodical statistics issued by joint stock banks should in all cases include the following particulars, so far as they are not already given.

In the first place we think that the published statistics of joint stock banks should shew the total "turnover," i.e., the total value of cheques drawn on customers' accounts. Owing to the many amalgamations the clearing house figures, which only relate to inter-bank transactions, give less guidance than formerly.

We further suggest that holdings of Treasury Bills should be separated from those of Commercial Bills, and also that advances by way of discounts should be separated from general advances in the few cases in which this is not already done.

We also consider that it would be useful if the Bank of England accounts shewed bankers' deposits separately from private deposits.*

We cannot see that the publication of these particulars could do any harm to legitimate banking business, while they would be of material assistance in furnishing the data to enable movements of trade activity to be more accurately observed and predicted. We have already indicated, in the chapter on Industrial Fluctuations in "Further Factors in Industrial and Commercial Efficiency," that the compilation and analysis of accurate data as to these movements afford the best means available of avoiding the miscalculations which are an undoubted factor in generating and intensifying those periodic fluctuations of credit and employment generally known as trade cycles. An additional reason for further publicity is that it would tend to give confidence to the public as to the real effect of bank amalgamations on the cost and adequacy of their services to British industry and trade.

The Gold Standard.

On April 29th, 1925 (i.e., several months after the appointment of this Committee), the Chancellor of the Exchequer announced the

* The new form of weekly return adopted by the Bank of England from 28th November, 1928, shews these particulars.

immediate restoration of the gold standard, which had been suspended since the beginning of the War. This step, one of the most momentous from an economic point of view that has been taken during the progress of our inquiries, was stated to be based on the unanimous recommendation of a committee of experts appointed by the previous Government to examine the question of the amalgamation of the Treasury and Bank of England Note issues. As from the date of the announcement, the export prohibition on gold bullion was virtually removed by means of a general licence to the Bank of England, and the prohibition itself expired at the end of the year. The action of the Government was legalised by the Gold Standard Act, which became law on May 13th, 1925.

We have received a certain amount of evidence from representative trade associations both before and after the date mentioned above, with reference to the restoration of the gold standard. This evidence was unanimously in favour of the re-introduction of a gold basis for the British currency, though in some cases doubt was expressed whether the right moment had arrived for the change. Such a return by the chief commercial countries was declared by the Economic Conference at Genoa in 1922 to be an essential pre-requisite of the economic restoration of the world after the catastrophe of the Great War. In the three years following that Conference great steps were taken by a number of important countries towards rehabilitating their currency either on a gold or a gold exchange basis. There never was a real chance of the acceptance by the business world of any of the alternative currency systems, not based on gold, which were advocated by some theoretical economists. These systems, while varying in detail, have the common feature that they reject any single commodity such as gold as the standard of value, on the ground that the selected commodity is necessarily subject to changes in the conditions of its own supply and demand, which are reflected in fluctuations of its general purchasing power, or, in other words, in instability of prices. It has accordingly been proposed to substitute some composite standard, e.g., a general price index number, or a " variable dollar," or else to attain the same object by means of a " managed " currency, the guiding principle being to aim at the stabilisation of internal prices.

The governing idea of all these schemes, namely, the diminution of the present instability of prices, is worthy of all commendation, and so far as their authors criticise the weak points of a gold currency system, and remind us of the importance of taking all practicable steps to counteract these weaknesses, they achieve a useful purpose. Regarded, however, as serious practical proposals for an alternative basis of the British currency, all these schemes seem to us open to fatal objections on grounds both of principle and of practice. Any kind of composite standard of value could only be based on rough approximations, derived from records of past transactions. An index

number constructed on such a basis would be unlikely to be sufficiently sensitive for the purpose for which it was intended. Moreover, even if it were fairly representative at the outset, its basis would, over a long period, need periodical revision in order to conform to changed conditions. Nothing would convince the business world that in making such periodic revisions the Government of the day would always be free from political pressure. Nor would there be any confidence that the controllers of a "managed" currency would always possess sufficient capacity, integrity and firmness, and would enjoy sufficient powers and independence, to enable them to carry out their delicate task, free from aberrations due either to political or economic influence, or to imperfect appreciation of the economic situation. The whole superstructure of modern credit depends ultimately on the confidence of the commercial community in the basis on which it rests, and we do not think that in the present condition of the world this confidence could possibly be ensured by any system of currency management independent of a gold basis.

While for these reasons we consider that in principle the resumption of the gold standard was unquestionably necessary and ultimately beneficial, we fully recognise that such a step was bound to put a severe strain on the economic organism, and to involve a considerable degree of transitory dislocation and inconvenience. That it operated as a check on exports and to some extent as a stimulus to unemployment and consequent industrial unrest during the period immediately following the change cannot, we think, be doubted, though it is exceedingly difficult to estimate the actual net effect, in view of the many other factors operating at the same time to advance or retard the revival of trade. The difficulty is increased by the fact that some of the immediate effects on trade and social welfare of the restoration of the gold standard acted in opposite directions.

But whatever may have been the net resultant effect during the transitional period, such effect tends to exhaust its force with the lapse of time, and it is unthinkable that any appreciable body of opinion would favour a fresh departure from the gold standard, with all the renewed disturbance to trade and labour which such a departure would involve. The foregoing view is fully shared by those members of the Committee who have been disposed to doubt whether the actual return to the gold standard was not too precipitate, and whether it would not have been possible and desirable to ease the economic difficulties of the transition, e.g., by postponing the restoration until the gap to be bridged should be somewhat narrower, or alternatively by slightly reducing the gold content of the sovereign. It cannot be doubted that certain of the difficulties could have been smoothed over by some such device, but this advantage would have been bought at a heavy price by prolonging the period of uncertainty and fluctuating exchange, or alternatively by diminishing the gold value of all obligations expressed in sterling, including many British oversea investments, and at the same time dealing a severe

blow at our financial prestige. Whether on balance this price would have been excessive for the relief thus obtained is a question on which there will probably always be difference of opinion, and it seems to us unprofitable so long after the event to argue the matter in detail. It suffices that the gold standard has been restored on its pre-war basis, and that no one would dream of disturbing the settlement so arrived at.

Instead, therefore, of looking backwards, it is rather of interest to look forward, and to consider how far, assuming the permanent retention of the gold basis, it is possible to take measures, either nationally or by international accord, to promote stability of prices through stabilising the commodity value of gold. We have already discussed this aspect of the question in the chapter on Industrial Fluctuations in "Further Factors in Industrial and Commercial Efficiency," pp. 257–66. As there mentioned, the Genoa Conference of 1922 contemplated an international conference of Central Banks of Issue, to be convened by the Bank of England, with the object of arriving at an agreement for the above purposes. The view taken in that chapter was that any such formal conference would in existing circumstances be premature, and that it might have the unfortunate effect of bringing to an end the informal exchanges of views between the governing authorities of the various Central Banks, from which very valuable results have already accrued and further advantages may be expected in the future. Since we issued the volume referred to, one serious obstacle to the success of this international co-operation, viz., "the still unstabilised currencies of some of those States," has been largely diminished by the stabilisation of the French franc. Other difficulties, however, pointed out in the chapter, e.g., "the unsatisfactory conditions of international indebtedness," continue to exercise a perturbing influence on the situation. It is hoped that one result of the labours of the new Expert Committee on Reparations may be to remove or reduce some of these difficulties. Pending this, we can only confirm the view we have previously expressed that in present circumstances a formal conference or negotiation would be unlikely to yield fruitful results, while its failure might prove a serious set-back. On the other hand, "very high importance is to be attached to the gradual, patient and persistent development of the habit of personal intercourse and co-operation among those in control of the Central Banks, based on the recognition that in the largest sense the monetary and economic interests of the different countries of the world are more nearly identical than opposed."*

It cannot be too strongly emphasised that what is needed is not the elaboration of a formula (which of itself might easily be worse than useless), but the growth of a new habit of confidential communication and friendly support among those responsible for the

* "Further Factors in Industrial and Commercial Efficiency," p. 266.

administration of national monetary policy in the various countries. In a matter like this, in which the pre-war tradition was one of isolation, mutual confidence is a plant of tender growth, which can easily be withered by the blast of premature publicity. We desire in this connection to record our appreciation of the action already begun by the Governor of the Bank of England in concert with his foreign colleagues, and to express the hope that it will be strenuously and continuously pursued independently of all changes of bank personnel.

That the practice of intimate co-operation, whether informal or formal, among the Central Banks should be established on a firm and permanent footing, is the more necessary and important since, in the opinion of experts whose views are entitled to respect, there is some prospect of a future scarcity of gold, and a consequent decline in commodity prices, unless the available supplies of gold are economised and used to the best advantage. Forecasts of this kind are always somewhat hazardous, owing to the doubtful character of the data, but the fact that such a prospect is at least possible, and that a continued decline in prices usually has a depressing influence on industrial activity, adds weight to our recommendation that all practicable and suitable steps should be taken by concerted action among the Central Banks towards economising the use and stabilising the value of gold.

The restoration of the gold standard necessarily raised the question of the policy to be pursued with regard to the gold reserve to be held against the note issue. In this respect the position was very anomalous, the obligations of the Bank of England with regard to gold reserve against its notes being still governed by the principles of the Bank Charter Act of 1844, though, with the disappearance of gold from actual circulation, the circumstances have wholly changed. Side by side with the Bank notes issued under these obsolete conditions, there was a vastly greater issue of Treasury notes of lower denomination, the expansion of which was solely limited by a Treasury minute. It was obvious that neither of the above rules could stand, and that the whole question of the relation of the gold reserve to the total note issue would have to be reconsidered in connection with the amalgamation of the two note issues. Since we ceased to take evidence, the whole position has been cleared up by the Currency and Bank Notes Act, 1928, which makes it unnecessary for us to submit any recommendation on the subject.

(4) Access to Means of Transport.

(A) External.

Introductory.

To an industrial community dependent for the essentials of its material welfare on external exchange, the efficiency and cheapness of transport both by sea and by land are vital conditions of

prosperity. When that community inhabits an island, so that the whole of the commodities exchanged between it and the outside world have to be carried by sea, while in addition coastwise steamers perform to a large extent the transport services rendered in some other countries by river and canal traffic, it is clear that ready and certain means of access to an adequate supply of efficient sea-carrying power on reasonable terms is one of the prime conditions of competitive power. In treating of the question of the supply of raw materials (see p. 38), it has already been pointed out that this country compares favourably with all of its competitors in the matter of access to shipping. Not only are our ports numerous and well placed in relation to our staple export industries, but our national policy in welcoming all ships alike to our ports without any kind of flag discrimination has the effect of placing at the disposal of British trade not only the tonnage of British ships but the entire ocean-going tonnage of the world. The trades of this country have, in effect, the full benefit of the open freight market of the world, except so far as that market may be affected by the working of what is generally known as the Liner Conference system—a system the advantages and disadvantages of which are examined below.

Since 1920 there has been no general shortage of sea carrying power. The tonnage of the shipping of the world, as recorded in Lloyd's Register, increased from 49 millions in 1914 to 57 millions in 1920, and to 65 millions in 1927. Of this tonnage that of the United Kingdom represented 19 million tons in both 1914 and 1927, but although our share of the total has fallen from 40 to 30 per cent., our war losses, which exceeded 8 million tons, have been replaced with more efficient ships, and of the world's tonnage built within the last five years we have now nearly half. That this country has been abundantly supplied with sea-carrying power since 1921 is shown by the fact that the entrances into its ports of vessels with cargoes averaged 52½ million tons* in the six years 1922-7 compared with 49 million tons in 1913. The adequacy of the general supply of sea-carrying power to satisfy the needs of the world's oversea trade is confirmed by the marked fall in the general level of freights during the past eight years.

Not only has this country been abundantly supplied since 1921 with general sea-carrying power, but in particular its Liner Services have been fully re-established and extended. Such services, which in very great measure had to be abandoned during the war, are essential to the maintenance of our oversea trade and in particular to the export of manufactured articles, which are usually shipped in "parcels," not in whole cargo loads.

* These figures represent the net tonnage of entrances of vessels with cargoes in the foreign trade including the ships' repeated voyages. The figures for post-war years have been made comparable with those for 1913 by excluding entrances from the Irish Free State which were formerly counted as coasting.

The facilities afforded by the Liner organisations, as regards both exports and imports, extend beyond sea transport. The frequency and regularity of their services and the stability of their rates enable forward business to be transacted with confidence; their collecting and distributing organisations minimise the need for carrying stocks; whilst their shipping documents enable the traders to use to the best advantage the financial facilities afforded by the Banks and other financial institutions.

The Shipping Conference System.

If a steamship line is to maintain a regular time table between fixed ports, however small may be the amount of cargo offering, it must be able to rely on the regular support of the shippers of the cargo, and must safeguard itself against the unrestricted competition of " tramp " steamers and of outside vessels " loading on the berth," which are bound by no such obligation and are able to cut in at any moment when traffic conditions on the route are favourable and take the most profitable cargo at a reduced rate. To provide such safeguards Liner Conferences have been established very generally. They are combinations or agreements, sometimes national, more often international, among steamship lines in particular trades, and their object as regards the shippers of cargo is to secure regularity of support in return for regularity of service at fixed and uniform rates.

The tie with the shippers of the goods that the Conference Lines seek to establish is secured in a variety of ways. Sometimes it is based on the fact that a considerable part of the earnings of the Lines on a particular route are derived from passenger traffic, or from freights on special classes of cargo (e.g., refrigerated produce) requiring vessels specially constructed or fitted for their safe carriage, or from both these sources. Sometimes it is based on port facilities provided by the Lines, mainly in foreign countries, for the handling of the cargo carried before or after the voyage, without the use of which the trade would be difficult or impossible. But very often, and in particular in regard to the export of manufactured articles from this country, the tie is based on what is known as the " deferred rebate " system, under which traders who can show that during a defined period already expired they have given all their custom to a Conference Line obtain a rebate, usually of 10 per cent. of the freights they have paid. Another form of the tie is a contract whereby a trader undertakes during a defined future period to give all his custom to the Conference Lines and in return is charged a lower rate of freight than shippers who have entered into no such agreement. This form of tie is much less usual than the deferred rebate system, but it has prevailed in the South African trade since deferred rebates were forbidden by South African law; and in pursuance of a recent report of the Imperial Shipping Committee, which is referred to below,

the contract system has been introduced as a trader's option in the Australian and New Zealand trade. Neither system prevails in the North Atlantic trade, which in great measure is controlled by conference arrangements relating to passenger traffic.

We received a considerable amount of evidence from trade representatives as to the attitude of traders towards the Conference system. On the whole, the opinion was generally expressed that regular liner services could not be reasonably expected without some form of tie; and, with certain exceptions, the prevalent view seemed to be that the trader was benefited by being able to rely on frequent and regular shipping services at fixed rates applicable to all alike, even though this advantage were qualified by a system of deferred rebates or exclusive contracts. Subject to what is said below we are in agreement with this view, which marks a considerable change of attitude on the part of the trading public as compared with twenty years ago, when the subject of Shipping Rings was investigated by a Royal Commission.*

The most recent investigation of a thorough character into the working of the deferred rebate system in shipping was that conducted by the Imperial Shipping Committee at the instance of the Australian Government.* This inquiry was confined to the Australian and other "inter-imperial" trade routes, but the findings appear to us to be equally applicable to ocean routes generally. The final report of the Imperial Shipping Committee, which was issued in 1923†, was conclusive as to the necessity of a tie between shipper and shipowner if the advantages of regular, frequent and efficient services were to be realised, together with stability of freights and equality of treatment as between different shippers. As they observe: "there is a clear mutual obligation—the shipper wants the ship on the berth without fail and the shipowner wants the goods on the berth without fail."‡ Recognising, however, that both the deferred rebate system and the exclusive agreement system were open to certain objections, the Committee recommended that shippers should be given a running option between the two systems, the terms of which should be so adjusted as to make their net financial advantages practically equal. This recommendation of the Imperial Shipping Committee was adopted, and is now in force in the Australian and New Zealand trades with satisfactory results, but we believe that the traders' option has not up to the present been very widely used, and it has not been extended to other inter-imperial trades or to any of the other ocean routes. The shipping lines generally prefer the deferred rebate system to any other form of tie on account of its automatic action; and where it is reasonably worked and gives rise to no complaints it may be unnecessary to introduce any change of

* See "Factors in Industrial and Commercial Efficiency," p. 88.
† Cmd. 1802.
‡ p. 19 of Report.

practice. We are, however, of opinion that wherever there is a substantial demand for it shippers should be allowed the same alternative as has been conceded in the Australian trade.

Shippers' Associations.

While we are of opinion that for reasons given above some effective tie between shipper and shipping line is necessary in order to ensure efficient and regular services, and that an arrangement under which the shipper can exercise an option between the deferred rebate system and the contract system appears reasonable and fair, we are far from considering that the interests of overseas trade in securing cheap and efficient transport can be adequately safeguarded without the formation of strong representative Associations of shippers concerned with each important group of overseas markets, capable of negotiating on fairly equal terms with the Shipping Conferences which regulate in common the rates of freight and the general conditions of the services.

The formation of such Associations was strongly recommended by the Royal Commission on Shipping Rings, and the advice was repeated still more emphatically by the Imperial Shipping Committee. So far, however, the recommendation has only been adopted to a limited extent, although the shipowners have expressly stated "that they welcome the formation of these Shippers' Associations with whom they can fully discuss conditions in the trade, because by this means they can become more fully aware of what their customers want and meet their wishes accordingly."* The difficulties which have retarded the formation of these negotiating bodies are believed to have arisen partly from the apathetic attitude of British traders towards co-operative action, but partly also from divergent views and jealousies among the traders. In view of the important interests involved we find it difficult to believe that these obstacles cannot be overcome, and we think that further efforts in this direction ought to be made. For we see no other way in which traders can ensure that their interests *vis-à-vis* the ocean transport interests shall be properly represented and effectively safeguarded.

The Royal Commission on Shipping Rings recommended that the Board of Trade should take the initiative in promoting the formation of Shippers' Associations. We are not aware that any action was taken to give effect to this recommendation, and for many reasons we should strongly prefer that such Associations should be formed by the shippers themselves, either spontaneously or with the assistance of traders' associations, in order to protect their interests in negotiating with the Shipping Conferences. Such organisations as the Manchester Association of Importers and Exporters, the South African Trade Association, the Australian and New Zealand Merchants' Association and the East African Outward Shippers'

* Imperial Shipping Committee Report, p. 24.

Conference have come into being in this way, and we see no reason why their example should not be followed. This is a matter in which we think that national bodies like the Association of British Chambers of Commerce or the Federation of British Industries might well take the initiative and endeavour to promote the necessary action. If in any particular trade, owing to circumstances of special difficulty, the efforts of these organisations should prove ineffective, we suggest that the Board of Trade should in the last resort take up the matter directly, not, of course, with the aim of enforcing any form of compulsory organisation, but with a view to removing obstacles and facilitating action by the parties concerned.

Carriage of Goods by Sea Act.

An example of what can be accomplished by negotiation between the interests directly concerned is to be found in the Carriage of Goods by Sea Act, 1924. After very many years of controversy the representatives of the shipowners, cargo owners, underwriters and bankers agreed to rules defining the risks to be assumed by the shipowners under all bills of lading, and such rules have been embodied in the laws of this country and of the British Empire. The rules have also been incorporated in an International Convention, but other countries are regrettably slow in bringing the provisions into effective operation. In the meantime the securing of certainty and uniformity throughout the British Empire in regard to the document of title under which overseas trade is not only carried on but also financed is a notable achievement in the interests of commerce.

Cost of ocean transport.

The question is often raised whether the existence of Shipping Conferences has raised the cost of ocean transport to the detriment of British trade. This is a question which cannot be solved by comparative statistics, since if, as we believe, the existence of some form of combined action is a necessary condition for the continued provision of regular and efficient Liner services, it is obvious that there are no means of comparing like with like.

The index of freight rates (based for the most part on "tramp" rates), which is compiled by the Chamber of Shipping, shews that since 1921 the annual average level of such rates has never been higher than 127 (1913 = 100), while in 1925 it sank as low as 108, and for 1928 it was 110. These ratios are much below the ratios of post-war to pre-war wholesale prices in the years concerned, and it would appear to follow that, so far at least as concerns the large volume of imports and exports carried by tramp steamers or at open market rates, the average cost of ocean carriage bears at present a smaller proportion to the value of the goods than before the war.

No index figures are available for comparing the post-war level of liner freight rates with that prevailing before the war. All we can say is that our witnesses made little or no complaint as to the burden of shipping freights on British export trade, though strong complaint was made as to the difference in rates of freight from British as compared with certain Continental ports, a point to which we return below (see page 66).

We have no doubt that this satisfactory position is largely the result of the maritime policy, which has steadfastly been pursued by this country since the repeal of the Navigation Acts in the middle of last century, of treating the merchant shipping of all countries using British ports on exactly the same footing as British ships in respect not only of port facilities and charges, but also of any Customs duties leviable on their cargoes. It may be observed that this policy of flag equality was strongly endorsed by the Maritime Ports Convention signed at Geneva in 1923, which however has so far failed to obtain general ratification, as some foreign countries still cling to the practice of various forms of flag discrimination. In this matter, Great Britain and the British Empire generally lead the world, and British trade undoubtedly reaps the advantage of this consistent policy in having at its command the world's tonnage of shipping to carry its products abroad and to import the necessary materials and foodstuffs in return.

Maintenance of British shipping industry.

This, however, is far from exhausting the problem of ocean transport in relation to British trade. Great Britain has natural advantages for the building of ships, and its people a traditional capacity for their navigation and management. It is of national importance that both should be used to the utmost, and, if that is to be done, it is essential that British Shipping as an industry should, on an average of years, earn a reasonable profit so as to enable it to accumulate reserves and raise fresh capital as required in order to renew the merchant fleet, to keep the ships and services up to the best modern standards, and to improve and expand those services to meet new demands.

To secure these objects without resort to the very undesirable method of national subsidy or flag discrimination, it is necessary by all practicable means to maintain the competitive power of British Shipping and for this purpose to free it from all special burdens and restrictions (other than those essential to safety), which are not equally imposed on foreign ships.

The representatives of British Shipowners urged strongly upon us that at present they are unduly handicapped in world competition, and gave as examples the enhanced cost in this country of ship construction and repair and the hampering effect on British ships of

regulations from which our trade rivals are free, and which discourage developments in improved methods of construction. They pointed out that many of the requirements of the International Convention of 1914 on Safety of Life at Sea had been put in force by British law although the Convention had not been ratified, and that during the critical years immediately following the war the rules relating to subdivision had made commercially impossible the building under the British flag of certain important types of ships. This grievance has now been rectified by a revision of the requirements, but not until it had seriously checked the revival of British liner services to the East. Another illustration given by the Shipowners was the handicap imposed on British as compared with foreign ships in respect of the carriage of timber, a matter which is understood to be at present under consideration by a Committee established by the Board of Trade. As the whole question of the revision of the Convention on Safety of Life at Sea is about to be considered at a new International Conference, we do not think it necessary to do more than emphasise the importance of securing international uniformity, so far as possible, in these matters, not only in the interest of safety, but also to safeguard the competitive power of British shipping.

Another matter of complaint by shipowners was the manner in which shipping profits are taxed in oversea countries. This question is most conveniently discussed in connection with the general problem of double taxation (*see* p. 249). Two other points to which shipowners called our attention were the high dues of the Suez Canal, and the obligation to pay Light dues. These charges raise questions of foreign relations and of finance which have been in debate for many years, and on which we do not feel that we have sufficient evidence to enable us to pronounce. We can only express the hope that in determining these questions due weight shall be given not only to their financial aspects, but also to their bearing on the broad question of maintaining and increasing the competitive power of British overseas trade.

Port dues and charges.

A very important factor in the increased cost of ocean transport in recent years is undoubtedly the great rise in port dues and charges, concurrently with a decline in the speed of handling goods and vessels, which by lengthening the average stay of ships in port has decreased their effective carrying power. The Report of the Port Facilities Committee established by the Chamber of Shipping called attention in 1924 to a number of deficiencies in the various ports, and made suggestions for their remedy, which appear from the evidence given before us to have been largely adopted. On the whole, the shipping representatives who appeared before us took the view that " taking all things into

consideration British ports have kept pace with modern improvements in processes, i.e., methods of handling and storage, but that there is need for improvement in many ports."* They also urged the necessity that the existing equipment should be used to its maximum capacity without unreasonable restrictions. Another body known as the " Co-ordinating Committee on Dock Charges," representing twenty-five organisations of shipowners and traders, reported in 1926 that their negotiations with Port Authorities had resulted in reductions in port charges to the minimum which existing conditions permitted.†

As regards the cost of loading and discharging, however, the evidence was to the contrary effect. This cost, though of course usually very much less than that of ocean freights, is large relatively to port dues, and shipowners and traders complained strongly both of higher charges and diminished services, as compared either with pre-war conditions, or with the existing conditions in competing countries. Cases were quoted to us where the cost of loading or discharging has risen to three or more times its pre-war amount.

The handicap to trade due to excessive rise of charges combined with increased delay in loading and unloading will be found on examination to be closely connected not only with the restrictions on overtime and night work which have arisen in recent years, but also with the vicious system of casual employment of port labour—the product of a mistaken and shortsighted policy in past times—which is discussed elsewhere in relation to the urgent but difficult social problem of decasualisation.‡ Here we need only say that the solution of this problem on a sound economic and social basis would make an appreciable contribution towards the reduction of the cost of ocean transport.

Lower freight rates from Continental ports.

In dealing with the general question of Shipping Conferences and the cost of ocean transport we made reference to one particular grievance incidental to the carrying out of the policy of the Conferences which was the subject of strong complaint to us in evidence from a large number of representative trade Associations. It not infrequently happens that the rates for cargo from certain continental ports to overseas countries are lower than those obtaining from British ports, and occasionally it actually pays an exporter to send his goods to Antwerp or Hamburg to be there shipped to an overseas destination by a British ship which calls at London on its way, rather than to place the cargo on board at London.

Lower freight rates from a foreign port, as compared with those ruling from a British port to the same destination may, of course, arise from many causes, including the comparative cheapness of the ports in respect of dues and charges or the rapidity of loading and

* " Further Factors in Industrial and Commercial Efficiency," p. 229.
† Ibid, p. 230. ‡See pp. 138-141.

discharge. But in the main the discrepancies of which traders complain are the consequence of rate " cutting," the position of the British shipowner being somewhat analogous to that of a manufacturer who is forced to sell his goods abroad at less than home prices in order to maintain his position in an overseas market. It need hardly be said that this anomalous situation is not desired by British shipowners, but sooner than abandon their established connection in the foreign port to their foreign rivals, they consider themselves justified in accepting cargo at the rates current at the foreign port without reducing their rates from other ports.

However sound this explanation may be, we doubt if it will carry conviction to the minds of the shippers who, to judge by the evidence which we have received, feel very sore at what appears to them an unfair discrimination by British shipowners against British ports. The situation is a difficult one, but until it is regulated by mutual negotiations, on the lines we have suggested or otherwise, to the satisfaction of both the shipowners and the shippers of the cargo, the feeling of resentment which exists cannot fail to detract from the popularity of the Conference system, and to obscure the real advantages which it affords to British trade.

(B) Internal means of transport.

The internal transport of the products of British industry from the works to their market or port of exportation, and conversely of the materials of industry from the port of importation or the place of production to the industrial works, together with the transport of the competing products of foreign manufacture from the ports of importation to the home markets is carried on partly by rail, road or canal, partly by coastwise vessels.

All these various methods of transport were surveyed in " Further Factors in Industrial and Commercial Efficiency," Chapter IV. It was there made plain that by far the most important means of internal transport is that of the railways, although since the introduction of motor transport the volume of goods traffic on the roads has rapidly gained on that carried by rail.

Canals and coastwise shipping.

Of the other methods, canal traffic is now a relatively unimportant factor in the transport problem, though canals worked in connection with ports, such as the Aire and Calder, the Bridgwater, the Grand Junction, and the Shropshire Union Canals and the Trent Navigation carry a considerable volume of cargo.* The problem of the canals

* The statistics of canal traffic published by the Ministry of Transport (which do not include the Manchester Ship Canal) shew that the weight of goods carried has averaged between 15 and 16 millon tons during the last few years. Of this traffic the five canals mentioned in the text are responsible for about 6 million tons, and the Birmingham canal for rather more than 4 million tons.

was investigated by a Royal Commission which reported in 1909, and by a Committee under the Chairmanship of Mr. Neville Chamberlain, which reported in 1921. The Committee pointed out that since the issue of the Commission's report not only had the waterways themselves further deteriorated, but the change of values brought about by the war had made it useless to revive the Royal Commission's scheme. Another factor which has greatly modified the situation since the date of the Royal Commission's investigations, and even since the Chamberlain Committee reported, is the rapid development which has occurred in road transport. In all the circumstances we do not believe that, apart from such cases as are referred to above, canal traffic can be generally revived on a commercial basis so as to play a very substantial part in the transport facilities available to trade. Canals such as those above named are worked with great advantage to overseas trade, but the modernisation of canals for general internal traffic would be a very costly business, and for the most part there is no reasonable prospect of the outlay being profitable. The fact is that the configuration of the country is much less favourable to canal traffic than to the development of coastwise traffic from port to port. This traffic, which in the period 1925–27 was represented by entrances (including the repeated voyages of the ships employed) averaging about 15 millions net tons per annum,* forms, in fact, an important element in the British counterpart of the canal and river traffic which constitutes such a valuable feature of the transport organisation of certain parts of the Continent.

The volume of goods carried by coastwise vessels, though of appreciable magnitude, is of course trifling compared with the volume carried by rail, and it is less than before the war. As mentioned in our previous volume quoted above, it is argued by the owners of coastwise shipping that traffic which would most naturally and economically be carried by coastwise shipping has been artificially diverted to the railways by special rates.† To safeguard coastwise distribution against such practices, provisions were inserted in the Railways Act of 1921 empowering the Rates Tribunal to revise exceptional railway rates (which are inadequate having regard to the cost of affording the services rendered) charged in competition with coastwise shipping or canal traffic in such manner as to be detrimental to the public interest.

We understand that the shipowners trading with the big ports through which the bulk of overseas traffic is handled, and the controlling bodies in such ports, attach great importance to coastwise distribution of overseas cargoes, as it facilitates the working of the ocean-going ships on the sea as well as the land side. We consider that the interests of British trade would be served by the revival

* i.e., shipping entered with cargoes in the coasting trade of Great Britain (not including trade with Ireland).

† " Further Factors in Industrial and Commercial Efficiency," pp. 225–6.

of some of the smaller ports and the resuscitation of the coastwise trade, and this process should in our opinion be materially assisted by the growth of road transport in the neighbourhood of these ports. Until this revival takes place it can hardly be said that all readily available means of cheap transport of goods are being used to the best advantage.

Road traffic.

The rapid growth of road traffic since the introduction of petrol-driven motors has been the outstanding feature of recent transport development both in this and other countries. Some information on the subject was given in the chapter on Transport Facilities in "Further Factors in Industrial and Commercial Efficiency." There can be no doubt whatever of the benefit resulting to trade and industry from the growth of road transport, which has the advantage over all other forms of transport that, not being tied to a rail or a port, it can more easily give a service from point to point without transhipment or breaking of bulk.

The questions which have recently arisen as to the powers of railway companies to engage in road transport are referred to below.* On general grounds we feel that it is most undesirable that one form of transport should be subsidised so as to compete unfairly with another, and we are consequently of opinion that it is essential in the public interest to ensure that heavy road traffic, which is highly destructive of road surfaces, is actually paying its fair share of the cost of upkeep and construction of the roads. We have not sufficient data to be able to determine how the actual situation stands in this respect.

It has been suggested to us that as mechanical road transport is still in its early stages there is a great opportunity, which ought not to be lost, of unifying our internal transport system through the operation of some public authority which should co-ordinate the road and rail services so as to ensure that they should be developed in the way most advantageous to the community, and that the waste resulting from haphazard planning shall be avoided. The suggestion is at first sight attractive, but the experience of early attempts to guide railway development is decidedly discouraging, and we feel that an effort to extend the scope of regulation of road transport beyond such aspects as public safety and amenities, the avoidance of congestion, and the equitable distribution of the burden of upkeep of roads, so as to cover the field of commercial development, might, unless very wisely directed, result in cramping its growth and depriving the public of part of its advantages. No doubt all these considerations will be taken into account by the Royal Commission on Transport, which has been appointed, with a very wide reference, since we ceased to take evidence. We return to this matter on page 79.

* See p. 73.

Railways.

A detailed analysis of railway transport as a factor in industrial costs and a brief sketch of railway transport facilities were included in our previous volumes.* It is not, therefore, proposed in the present Report to go over this ground again, but only to consider on the basis of the above information and of the evidence submitted to us, together with other data which have become available since that evidence was taken, how far the present railway transport system is meeting the needs of British trade in respect of the quality of the services provided and the rates of charge for those services. By far the most important of the additional data referred to are the records of proceedings of the Parliamentary Committee recently engaged in considering Bills promoted by the Railway Companies seeking general powers to act as road carriers.

Railway Charges.

Broadly speaking, the conclusions to be drawn from our analysis of railway charges in relation to industrial costs are that the average proportion borne by these charges to the value of the goods carried has not substantially changed as compared with the period immediately preceding the war, but that nevertheless they impose a burden on the heavier trades which is greater than they can bear. In our earlier volume (which was based on the statistics for 1925) we were able to say† that the average proportion had actually diminished, but the subsequent rise of railway rates and the fall in wholesale prices have modified this conclusion. The fact, however, that the railway rates now in force were authorised by an independent authority after full inquiry is of itself strong evidence that the present railway charges do not as a whole bear an unreasonable relation to the costs of efficient railway working. In the evidence we received from trade organisations there was a general recognition that the increase of rates has on the whole been moderate having regard to the rise in prices and costs, and such complaints of rates as were put before us referred as a rule to special cases, e.g., the high rate on short journeys for coal and heavy goods.

There is, nevertheless, general agreement that the existing railway charges on the heavier classes of materials, such as coal, iron, and steel, however reasonable they may be having regard to the cost at which the services are being maintained, are affecting seriously our competitive position in the markets of the world. We note with interest that, in connection with the Government scheme to relieve the pressure of local rates on industry, provision is to be

* See "Factors in Industrial and Commercial Efficiency," pp. 62–5 and pp. 493–520; also "Further Factors," pp. 210–14.

† "Factors in Industrial and Commercial Efficiency," p. 65.

made to secure that the Railway Companies shall use the relief to reduce their charges for the conveyance of export coal and of raw materials used in the production of iron and steel.

Railway Services (effect of amalgamations).

A good many complaints were made to us of the quality of the railway services, and there was evidently a widespread opinion among traders that the results of amalgamation have not so far been favourable to the customers of the railway companies whatever may have been its financial results to the Companies themselves. It was represented to us that prior to amalgamation greater consideration was shewn to the trader, and more eagerness to secure his custom, while the services rendered were more punctual and expeditious and of better quality. We do not think it necessary to go in detail into these complaints, or the replies of the Railway Companies thereto, beyond referring to the summary given in the section of our earlier volume which dealt with efficiency of railway working.* While it is impossible to doubt that there is some foundation for an opinion so widely held by representative traders and trade associations, there is, in our opinion, much force in the contention of the Railway Companies that the period through which they have passed since the passing of the Act of 1921 has been so extremely unfavourable that no fair inference can be drawn from the experience of these years with regard to the real effects of amalgamation either on their financial position or on the quality of their services. Not only has the period been one of abnormal depression falling with special severity on the coal industry which supplies the bulk of the heaviest class of railway traffic, but simultaneously the railways have had to meet the growing competition of petrol-driven motor transport on the roads.

How heavy was the blow to the railways inflicted by the coal stoppage of 1926 may be gathered from the fact that no less than £17 millions were taken from reserves during that year, although the amount distributed in interest and dividend fell by over £7 millions compared with the previous year. On the other side are to be set the savings effected by amalgamation, but it is to be remembered that the bulk of these savings can only be realised very gradually and that it was unreasonable for the public to expect spectacular economies to flow immediately from the enlargement of the railway unit. On the contrary the transition from one system to another may often involve an immediate increase of cost and a temporary decline of efficiency. We must in fact look on the changes arising from the amalgamation as still incomplete; but from the information furnished to us as to developments in progress we feel there are grounds for the belief that, when the full effects have been worked

* " Further Factors in Industrial and Commercial Efficiency." pp. 212–13.

out and have made themselves felt, the net result will be found to be an appreciable economy in working, and a corresponding increase in the power to give good service to the public.

As regards efficiency and adaptability of services, it seems to us that much depends on the development of the machinery for collective consultation between representatives of the railways and of the traders, which has to some extent been established in certain districts. We are not satisfied that this machinery is at present utilised to the fullest extent and to the best advantage, and we would lay particular stress on the importance of regular meetings with substantial agenda, and of ensuring that the consultations are really bilateral, i.e., that they cover the ground of the mutual relations between the railways and the traders, regarded from both points of view. It should never be forgotten that while the traders may have grievances against the railways, the railways may also have grievances against the traders, and all these questions should equally be open to discussion. In the past there has been much complaint of the want of touch between Railway Companies and their customers, and it would be lamentable if the present organised attempt to remedy this defect by providing better means of mutual consultation should fail, either through apathy or through the exclusive absorption of one or other of the parties in their own grievances. Needless to say, the success or failure of this joint machinery will depend to a large extent on the personal qualifications of the representatives chosen by the parties.

It has been assumed above that the full economic results of amalgamation will eventually be reaped, including such economies in working costs as result from redistribution, re-organisation and concentration of services so as to ensure the maximum efficiency at the minimum of cost. All this process will, of course, require time and patience and tact, for great staff economies cannot be carried through without hardship to individuals. As no less than two-thirds of railway working expenses consist of wages and salaries it will readily be seen that there can be no substantial saving in railway costs without a reduction in this item. How far what is required can be effected by re-organisation and concentration, or how far it will involve a modification of wage rates, is a matter that could only be settled by agreement between the companies and their employees, either directly or following a decision of the Railway Wages Board, in the light of the full and detailed data as to wages, costs and working expenses to which they alone have access.* It cannot,

*Since the above was written, a noteworthy development has occurred. Following representations made by the railway companies to the railway trade unions as to the difficulties resulting from the decline in traffic, negotiations took place and resulted in an agreement under which, briefly, the earnings of all classes and grades of railway employees are subjected to a deduction at the rate of 2½ per cent. The agreement was made for twelve months from August, 1928, after the end of which period it is terminable by three months' notice from either side.

however, be too clearly understood that the only means in the long run of avoiding or minimising reductions of wages on the railways, as in other "sheltered" occupations, is to ensure the fullest co-operation between all grades of workers and the management in the effort to realise the greatest possible economies in the service, even if this involves changes of customary methods which at first may be unwelcome.

While "demarcation" difficulties and other forms of industrial immobility in the different grades of railway service may not be so deep-seated as in some of the old-established skilled trades, there is reason to believe that they offer appreciable obstacles to economic re-organisation. It appears to us essential that these obstacles should be faced and overcome.

It need hardly be said that in the re-adjustment of focus necessitated by the greatly increased magnitude of the unit of railway business, a great part, perhaps the predominant part, has to be played by the higher management and directing staff. In cases in which the average scale of a business is suddenly increased by amalgamation to, say, four times its previous magnitude, difficulty is liable to be experienced in finding among the men trained under former conditions a sufficient number who possess the force of mind and character, the breadth of vision and imagination to enable them forthwith to think effectively in the larger units and to visualise the possibilities of economy and efficiency which they offer.

The quality of the higher command in railway service is of supreme importance, not only for its direct results on efficiency, but also for its reflex action on the attitude of the company's customers and employees, whose willing co-operation is an essential condition for the realisation of the full economies of amalgamation. Nothing is more calculated to elicit that co-operation than the general consciousness that the effective direction of the railways is in the hands of strong and capable men with a sympathetic understanding of the point of view of those with whom they have to deal.

Railways and road competition.

It must not, however, be thought that mere reduction in the cost of railway working will by itself be a sufficient remedy for the situation in which the Railway Companies find themselves through the competition of motor traffic. Up to the present the companies have in general been debarred from undertaking this kind of transport themselves except in actual connection with their train services. The effort of the railways to escape from this unfair position through the acquisition of powers to establish road services is so fresh in the public mind that we do not feel it necessary to deal in detail with the case which has been exhaustively considered during the year 1928 by a Joint Committee of the two Houses of Parliament. We need only say that in substance we had already been convinced by the

evidence before us of the essential unfairness of the position in which the railways were placed by the competition of carriers not subject to any of the obligations of the law of undue preference, or compelled to accept all classes of goods, and operating on roads maintained in part by the rates paid by the Railway Companies from whom they are able to deflect to themselves the most lucrative traffic. Had it not been for the introduction of the Railway Bills we should certainly have thought it our duty to make proposals in general terms for the purpose of redressing the grievance. As it is (and subject to the following observations) we content ourselves with recording with satisfaction the verdict of Parliament in favour of the Railway Bills.

Ancillary businesses of Railway Companies.

There is, however, one aspect of the matter which has given us some anxiety. In past times there has been a wide-spread feeling that the railways deliberately stifled traffic on the canals of which they obtained the control. It was further believed by shipowners that the railways set themselves to destroy the competition of coastwise shipping by a rate war. Lastly, it has been urged that Railway Companies which control ports have used their strong financial power to attract traffic from ports not under their control by means of uneconomic charges at their own ports, so as to feed their own transport systems. We are in no way pronouncing on the validity of these complaints. We are aware that Railway Companies were frequently compelled to take over canals against their will, that the grievance with regard to coastwise traffic has been more or less met by the provisions of the Railways Act of 1921, and that the Railway Companies are under an obligation to keep separate accounts of their port enterprises and are subject to statutory provisions designed to prevent users of the railways from being mulcted to make up any unduly low net revenue arising from such branches of work. We are further aware that there is a similar condition applicable to all branches of " ancillary " business carried on by Railway Companies, including road traffic. Our purpose is not to criticise the Railway Companies, but to illustrate the contention that a huge business like that of railway transport, with its enormous financial power, has always been, and will be, subjected to very watchful scrutiny when it desires to go outside its special sphere and to enter into open competition with other forms of business enterprise. We do not believe that the idea of oppressive or unfair action towards other interests entered into the plans of the Railway Companies in desiring to be free to meet motor competition on even terms. It is, indeed, our desire to see the railways as free as possible to undertake business ancillary to their principal objects, because we believe that in this way only can the best services be rendered to the trader and the public at the least cost. But we are disposed to think that, in view of the historical position and of the quasi-monopolistic power

enjoyed by the railways in respect of their main business, it might be prudent to enact some general provision giving jurisdiction to the Railway and Canal Commission to deal with complaints by outside interests affected of " unfairly oppressive " action on the part of Railway Companies in the conduct of an ancillary business of any kind. The words " unfairly oppressive " are taken from Section 27 of the Port of London Act, 1908,* which gave similar recourse to wharfingers or other port interests against unfair action by the new Port of London Authority in the matter of its warehousing and other competing business. Originally the tribunal was the Board of Trade, but since 1922 it has been the Ministry of Transport. During twenty years there have been very few cases of resort to this safeguarding provision, but it is believed that its existence has had a salutary effect, and has contributed to the removal of the anxieties with which the consolidation of the docks was at first regarded by competing interests, and hence to the general improvement of relations which has been so happy a feature of recent experience in the Port of London. We think it worthy of consideration whether a similar enactment in the case of railways would not have a similar result, and, moreover, whether it might not be safe and desirable, subject to this over-riding condition, to free Railway Companies from the existing necessity to incur the great expense of application to Parliament each time that they find it desirable to embark on some business ancillary to their principal objects. In any Act of Parliament giving effect to this recommendation, it would of course be necessary to take precautions against the possibility of an undue extension of the meaning of the term " ancillary ".

Manufacture of locomotives.

Lastly, we desire to note the strong representations made to us by the Locomotive Manufacturers' Association with regard to the policy of the Railway Companies in constructing their own locomotives. The locomotive builders argued that it was impossible to maintain their industry on an economic footing merely by export and without the support of a sufficient home market. They considered that their position has been worsened by railway amalgamation, since various smaller railway companies who previously had been their customers now formed part of larger units which possessed their own building facilities. To the reply of the Railway Companies that the building of their own locomotives has been proved to be the most economical procedure the locomotive builders rejoined by throwing doubt on the cost estimates of the railway shops.

The whole matter is summarised in our " Survey of Metal Industries,"† and it is, therefore, not necessary to enter into detail. We may

* Now embodied in Section 195 of the Port of London (Consolidation) Act, 1920.

† pp. 170–2.

say, however, that we are strongly impressed with the desirability that the railways should give adequate support to the locomotive building industry on economic terms, as the necessary basis for keeping in healthy existence an industry of great value to British export trade and also of potential value to the Railway Companies. At the same time we do not see our way to any recommendation that would debar a Railway Company from building a locomotive in its own shops if it considers that such a course is advantageous from the point of view either of economy or of keeping the staff fully employed. We are glad to learn that some at least of the great Railway Companies are now fully alive to the expediency of feeding the independent locomotive building industry with a sufficient flow of orders, and we are in hopes, therefore, that the question may settle itself in an amicable way. We should greatly prefer such a voluntary solution on mutually satisfactory lines to any statutory restriction, which, so far as we can see, could only take the form of applying to the building of locomotives by Railway Companies the provisions applicable to an " ancillary business."

(C) The Control of Transport Undertakings.

Railways.

In connection with a service such as railway transport which has many affinities with the supply of such " public utilities " as power, light and water, the question naturally arises whether, on the whole, the interests of trade and industry would or would not be better served by the consolidation of the whole British railway system under some form of public National Board or Trust than by the present management by a limited number of great companies, conducted for profit, but subject to statutory safeguards. Those who answer this question in the affirmative point out that throughout all the earlier phases of railway development it was considered as axiomatic that the interest of the traders and the public must be safeguarded either by free competition or by statutory and administrative regulation; and there was always in the background the project of nationalisation by compulsory purchase in the event of both these safeguards against the abuse of monopoly being found insufficient. It is true that the procedure and conditions for compulsory purchase laid down in the Act of 1844 were unworkable in character, that the policy, once in favour, of maintaining competition by hindering railway amalgamation and agreements became gradually discredited by failure, and that the statutory regulation of railways has been much more successful in respect of public safety than of commercial policy and charges. As, however, the expectations based on free competition among Railway Companies gradually faded, and it became recognised that larger and ever larger railway units, together with working agreements among themselves, were an essential condition of the cheapest and most efficient services,

interest in the possibility of some form of nationalisation revived, and the whole question of the relation between the State and the Railway Companies was actually under consideration by a Royal Commission when the war broke out. The temporary unification of railway management during the war gave a further stimulus to the demand for permanent nationalisation.

We do not consider that it falls within our reference to deal with the whole problem of railway nationalisation, which obviously involves political, financial and social questions outside our province. We are solely concerned with a single aspect of the problem, viz., its bearing on productive and distributive costs. Would the services rendered by the railways to trade and industry be likely to be cheaper and more efficient under public than under private management ? And if so, would the advantage be great enough to outweigh the effects on trade and credit of the vast financial operation required to transfer the railways with their capital of nearly £1,200 millions from private to public ownership ?

To give a decisive answer to this question, we should need comparative data of costs and efficiency between privately and publicly owned railway systems operating under approximately like conditions, and such comparisons are almost entirely lacking. We should also need to study the full effects on costs and efficiency of the latest railway consolidations in this country, and for reasons already given this cannot at present be done.

If, therefore, for any reason it were necessary to take an immediate decision on the question of nationalising the railways, the decision would have to be taken on a balance of considerations of general political and social policy rather than on a reasoned study of ascertained and comparable economic data. Nevertheless, there are certain broad propositions which may be formulated on the basis of existing experience, and which, in our opinion, would command a very wide measure of agreement :—

(1) It is common ground that railway enterprise has been and is successfully carried on in different parts of the world under public control and also under private management.

(2) It is also common ground that the danger of political interference with railway working and the deflection of railway policy to attain political ends has been shown by experience both in foreign countries and British Dominions to be a very real drawback, from the point of view of trade and industry, to schemes of nationalisation which place railways under direct governmental and parliamentary control.

(3) There would be widespread agreement with the proposition that, if fuller experience of the advantages and economies resulting from the amalgamations which have taken place under the Act of 1921 should be deemed to warrant a further step in the direction of railway consolidation under unified management, the gigantic monopoly resulting from such unification would require such stringent

safeguards of the interests of traders and the travelling public that there would be no practical alternative to the creation of a public controlling authority.

Different views are held by different members of the Committee as to the prospect of the situation envisaged in the last paragraph arising in the near future. Some of us expect it with confidence; others are much more dubious of the ultimate advantages of consolidation, and are inclined to question whether some of the present units are not too great to yield the maximum of efficiency in management and service. All of us, however, whatever our views on ultimate tendencies may be, are agreed that the present system of railway amalgamations established by the Act of 1921, which represents a very considerable degree of public control, has not yet had a fair trial, and must be allowed sufficient time to develop its full possibilities before it can be impartially judged by its results, and a decision can be taken in the light of that judgment as to what further step, if any, is desirable in the interests of trade and industry.

Other means of transport.

As regards other classes of internal transport, it has already been shown* that various forms of publicly and privately managed road transport are already in successful operation side by side. No witness has proposed to us to modify this dual system.

In the case of ocean transport the advantages of private management of shipping over State ownership in a world in which commerce itself is not nationalised appear in practice to be very great. We know of no case of a State shipping line paying its way unless backed up by a legal monopoly, and the experience of the United States Shipping Board, as of the Australian Commonwealth Line, in competition in the open freight market certainly does not encourage any such experiment under existing conditions in this country. One incidental drawback to the institution of State controlled shipping services of an international character is their tendency to compete unfairly with private shipping enterprises through the enforcement of a claim to enjoy sovereign immunity from the liabilities to which their competitors are subject. This grievance has become so acute since the War that an International Convention is now in course of negotiation to put an end to it. The principle of this Convention was unanimously affirmed by the recent International Economic Conference at Geneva, and we heartily endorse it in the interests of British trade.†

The various systems under which the maritime ports of this country are controlled were fully described in one of our earlier volumes.‡ They include many different types, from the profit-

* See "Further Factors in Industrial and Commercial Efficiency," chapters IV and VIII.

† See "Survey of Overseas Markets," pp. 20–1 and 631–4.

‡ See "Further Factors in Industrial and Commercial Efficiency," pp. 38–40 and 333–343.

earning dock company or the railway-controlled port, to public management either by a specially constituted "Port Trust" or by a Municipal Council. It was there pointed out that, of the two alternative forms of public management, the Port Trust had, generally speaking, proved its superiority to the Municipality, owing partly to the provision for direct representation of the shipping and trading interests which use the port, partly to the fact that municipal boundaries rarely coincide with the areas which the ports serve. Subject to this consideration, and to the governing condition that a high standard of efficiency should be maintained, we feel that there may be certain advantages in maintaining a variety of forms of port control both public and private, the results of which can be observed and compared, and to some extent be brought to the test of competition.

General.

The above conclusions as to the most appropriate forms of business management for each class of transport undertaking considered separately are not inconsistent with a more general scheme of higher control or supervision in the national interest, to be exercised by some public authority over all forms of internal transport in this country.

There is a broad distinction to be drawn between the ownership and commercial management of transport enterprises on the one hand, and, on the other, the exercise of supervision in the national interest over transport in general, with a view to securing the proper co-ordination of the various agencies by which it is carried out, and to safeguarding the public against traffic dangers and congestion, or the loss of facilities and amenities, or any other prejudice that may result from the operation of transport undertakings. While, however, the distinction of principle is clear, it must also be realised that in practice the exercise of public supervision may, if carried beyond a certain point, involve such a degree of interference with the ordinary operations of business as to lead necessarily to the assumption of national responsibility for the commercial results of transport enterprise. It is evident, for example, that any controlling authority which gave directions involving particular undertakings in obligations beyond their powers might find itself compelled either to give a guarantee or to take over the concerns, unless prepared to face the withdrawal of their services.

We have, however, refrained from pursuing the investigation of the expediency and practicability of instituting any general scheme of transport control beyond that exercised at present by the Ministry of Transport, partly because we feel that a full examination of the traffic problem in its broadest sense would involve other and wider considerations than the interests of British industry and trade, but chiefly because this problem appears to fall within the scope of the Royal Commission on Transport which has lately been established.

(5) Access to Mechanical Power.

Introductory.

Under modern conditions of industry it is impossible to maintain the high standard of output which alone can enable a high level of earnings to be combined with a low level of production costs, unless the efforts of human labour are adequately aided by machinery. The competitive strength of British industry therefore depends to a large extent on the provision and full utilisation of machinery of the most efficient description, together with the necessary power for driving such machinery. The access of British industry to these essential means of production is dependent on a number of different factors.

The possibility of installing plant and machinery and of replacing them by fresh equipment when obsolescent depends in the first place on the conditions of supply of machinery and plant by the engineering and electrical manufacturing industries which have been fully examined in our "Survey of Metal Industries." It is evident that in the matter of access to efficient and up to date machinery on reasonable terms, British manufacturing industries are at least as well off as their foreign competitors. Not only have they at their doors a vast and, on the whole, efficiently organised engineering industry, but in the absence of any import duties on most classes of machinery they have also ready access, if needful, to the world's production of machinery for the supply of their requirements. The practical possibility, however, of British industry taking full advantage of these favourable conditions in order to keep its productive equipment up to date depends essentially on the means of access to new capital and financial facilities on reasonable terms, a matter which has already been discussed in a previous section of this Report* and which will be dealt with more fully from the point of view of certain important basic industries in the section relating to industrial structure (pp. 185–7.)

Passing, therefore, from these matters, we have to inquire whether there are any other factors which might hinder the adequate equipment of British industrial works with modern plant and machinery, or the adequate utilisation of such plant and machinery. Two possible classes of obstacles fall to be considered. First, there are those arising from inadequate access to abundant and cheap supplies of mechanical power to drive the machinery. Secondly, there are the possible difficulties arising from the human factor—the conservative habits of mind which prevent many British employers from pursuing so energetic and (as it appears to them) so ruthless a policy of "scrapping" old plant and replacing it by new as their competitors (say) in America or Germany, and the corresponding

* See above, pp. 43 et seq.

qualities of mind which lead many workmen and some of their Trade Unions to cling tenaciously to obsolete trade customs and lines of demarcation and thus prevent them from co-operating to the full in getting the best value out of machinery at the lowest cost.

The last-mentioned factor is dealt with under other headings.* In the present section, therefore, we confine attention to the question of access to power supply as a factor in industrial efficiency and costs.

Water-power, coal, oil.

Mechanical energy for modern industry, whether it takes the shape of electricity, steam, or some other form of power, is mainly produced by utilising water power or by burning fuel. Of these two great ultimate sources of power Great Britain is very deficient in the former as compared with some important competing countries, e.g., Italy, Switzerland or the United States.† This is a defect of geographical conditions which is only to a limited extent remediable by human action, and, though all experiments in this direction (e.g., on the utilisation of tidal energy) will be watched with keen interest, it would be imprudent to count on any important increase of mechanical power from these sources in the near future.

What we lack, however, in water power is offset by our abundant supplies of coal, which is by far the most important source of the mechanical power used in British industry, though an increasing proportion of the coal so consumed is used indirectly by way of the production of electric power or gas rather than directly for driving machinery by steam.

The only other important fuel for industrial purposes is oil; and though Great Britain has within itself only a very limited supply of fuel oil, it possesses large oil refineries and is able to meet its needs by importation at least as satisfactorily and cheaply as most European countries. In this respect, however, it cannot compare with America which possesses vast resources of oil on its own territories.

Broadly speaking it may be said that the conditions of power supply in Great Britain depend chiefly on two factors: (1) the conditions which govern the supply and utilisation of fuel and (2) the conditions affecting the organisation of electric power supply.

Fuel supply and fuel economy.

The situation as regards the supply of coal to industry has been summarised in our "Survey of Metal Industries," and the whole problem of producing coal at competitive prices while securing reasonable wages for the workpeople has received so great an amount of attention both from the public and from the industry in

* See especially pp. 239 et seq.
† See "Survey of Metal Industries," pp. 352–7.

the last three or four years that we do not propose to discuss it here in detail, especially as we could add nothing to the exhaustive investigation which has been made by the Royal Commission on the Coal Industry while we have been sitting.

Nor do we think it necessary to add to what we have already said on the subject of fuel economy in our " Survey of Metal Industries "* and " Factors in Industrial and Commercial Efficiency "† where we have referred to the investigations of the Fuel Research Board particularly as regards the utilisation of coal. It is sufficient for the purpose of this Report to note that all these vital problems are being continuously studied both by official and private agencies, and to emphasise the great importance of maintaining and expediting such research. In this connection we are glad to know that, in pursuance of the recommendation of the Royal Commission on the Coal Industry (1925). a permanent Advisory Board under the title of the " National Fuel and Power Committee " was constituted by the Government in 1926 under the chairmanship of Sir Alfred Mond (now Lord Melchett) " to consider and advise upon questions connected with the economic use of fuels and their conversion into various forms of energy, having regard to national and industrial requirements and in the light of technical developments." The first two Reports of this Committee have recently been published, and we await with interest the further progress of the inquiry.

Electricity supply.

There remains the question of the arrangements for electricity supply, which up to comparatively recent times were seriously defective, and which still leave a great deal to be desired.

The extreme and growing importance of the organisation for the public supply of electricity in relation to British industry is very clearly brought out by the reports of the Census of Production of 1924, and particularly by the Report summarising the Census results as a whole, which was published in September, 1928.‡ These reports shew that a great change has been taking place, and is doubtless still in progress, in the character of the power equipment of industry.

In the first place there has been a great increase in the amount of electrical machinery installed, and in the second place a great and probably an increasing proportion of such electric motors appears to be driven by electricity purchased from electricity supply organisations instead of by electricity generated on the premises. In 1924 the total power of the electric motors installed in Great Britain which were ascertained by the Census of Production to be driven by purchased electricity amounted to over 4½ million horse-power compared with considerably less than 1 million horse-power

* pp. 7, 8, 24–28.
† pp. 324–5.
‡ Board of Trade Journal, 20th September, 1928.

in 1907. The electric motors driven by generators installed in the works amounted in 1924 to nearly 3½ million horse-power, so that the total horse-power of electric motors reached about 8 million horse-power, an amount roughly equal to the total horse-power available for mechanical application to productive industry. As the amount of horse-power available for mechanical application was about the same in 1907 as in 1924, it appears that the whole of the increase which took place between those years in the amount of available power was accounted for by the increased equipment of electric motors.

It is not possible with the existing data to state with precision the proportionate increase in the use by industrial undertakings of purchased electricity as compared with that generated on the premises. It appears almost certain, however, that the growth of the supply to industry of electricity for power purposes from public generating stations has considerably exceeded the increase in the amount generated on industrial premises, and that there is a strong tendency, especially among the smaller undertakings, to purchase their electricity, instead of generating it as formerly. In this connection we note the recorded opinion of the Electricity Commissioners* that " with reductions in cost, increased reliability of supply and the further facilities for development generally which will result from the carrying out of schemes under the Act of 1926 a large accession to the demand for public supplies may be expected through the gradual discarding of much of the private generating plant at present in operation." Though many of the larger units will doubtless continue to rely on their own plant, it is clearly very important, in view of the increased dependence of industry on electric power and especially on electricity purchased from outside sources, that an efficient system of public supply should be developed, so that the use of electrical power by industry shall not be hampered by inadequate supplies or excessive cost.

A brief account of the development of the electricity supply industry in this country has been given in previous volumes.† From that account it will be seen that in the earlier years of electricity supply unwise restrictions and local prejudices seriously hampered the development of systems of supply on a large enough scale and with sufficiently assured prospects to meet the needs of industry on an economical basis. Even before the war the degree to which Great Britain was falling behind competing countries in the rapidity of electrical development was giving rise to increasing anxiety, and from 1917 onwards the whole problem has been systematically surveyed by a series of Committees of which the last reported in 1926.

* In their Seventh Annual Report (1926–27), p. 17.

† " Survey of Metal Industries," pp. 348–51, and " Further Factors in Industrial and Commercial Efficiency," pp. 315–323.

As the result of these inquiries, national machinery (the Electricity Commissioners) was established in 1919 to promote schemes for the systematic co-ordination of electricity supply over suitable areas throughout Great Britain. In addition, the Electricity Supply Act of 1926 established a Central Electricity Board with executive powers for the prime object of constructing and operating a system of main transmission lines inter-connecting the principal generating stations. We understand that this Board is already putting into operation schemes prepared by the Electricity Commissioners for co-ordinating electricity supply in several important areas of England and Scotland, while schemes for other areas are in various stages of preparation. In the circumstances, it is unnecessary for us to make any specific recommendation with regard to the organisation of the production of electricity, or to do more than express an earnest hope that this work now undertaken on a national scale will be pressed forward as rapidly as the nature of the problem admits, and that the difficulties which have so long impeded the economical and efficient production of electricity in this country will now be finally overcome. It needs, however, to be emphasised that the solution of this problem will not of itself ensure adequate and cheap supplies of electricity in all parts of the country, unless the necessary attention is also paid to the development of efficient and economic means of distribution.

The position as regards the control of electricity supply was discussed in a previous volume,* where it was shewn that "in 1925-6 local authorities controlled about two-thirds of the [public] electrical supply, whether measured by the capacity of generating stations, or the amount of current sold, and that these proportions had remained approximately constant during the last five years. The statistics compiled by the Electricity Commissioners do not go back before 1920, but the Census of Production figures of electricity generated show that about the same proportion obtained so far back as 1907." It was added that the Local Authority undertakings are mostly found in large and moderate sized towns, while the Supply Companies include the great power Companies, the Metropolitan Companies and a number of small undertakings.

It would appear that public management of electricity supply is on the whole the predominant method, but during the past twenty years neither public nor private management seems to have gained appreciably on the other. If, however, we take into consideration the general public supervision entrusted in 1919 to the Electricity Commissioners and the schemes for district supply promoted by them, and still more the executive and operating powers vested in 1926 in the Central Electricity Board, it may fairly be said that the general supply of electric power to industry from public generating stations has in the main passed into the orbit of publicly constituted authorities.

* "Further Factors in Industrial and Commercial Efficiency." pp. 38 and 315—321.

SECTION V.

CONDITIONS OF EMPLOYMENT IN RELATION TO COMPETITIVE POWER.

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V. CONDITIONS OF EMPLOYMENT IN RELATION TO COMPETITIVE POWER.

(1) Wages and Methods of Remuneration.

General Considerations.

As pointed out in our " Survey of Industrial Relations " the subject of wages may be regarded from two very different points of view—as a means of livelihood for the worker and his dependents, and as an item in productive costs. Both these points of view must be kept in mind in order to arrive at a solution of the problem of how " to combine the maintenance of a reasonable standard of weekly earnings with a maximum of output obtainable at a given wages cost," which as indicated in the introduction to the above mentioned Survey is the central wages problem of the present time.

Dealing with the subject in the first place from the point of view of industrial costs, it may be observed that, broadly speaking and on the average, expenditure on wages and salaries is one of the most important items which enter into the expenses of industrial processes. Moreover, in those numerous cases in which the production of the finished commodity is broken up into a series of processes carried on by different undertakings, the cost of wages and salaries is cumulative, differing in this respect from such items as the cost of materials, which re-appears in the cost of each successive stage or process of production. What may be the final proportion borne by aggregate wages and salaries to the aggregate value of the product of industry is a question which has been very differently answered, and which in fact does not admit of a direct and unequivocal reply without first determining to what extent subsidiary and indirect labour costs are to be pursued through their various ramifications, and in what measure the cost of foreign labour embodied in imported materials is to be taken into account in estimating the labour cost of the British manufactured product. For example, are the wages paid to negro labour on American cotton plantations to be included in the wages cost of the products of the Lancashire textile industry? It is fortunately unnecessary for our present limited purpose to arrive at any definite figure for the final proportion borne by wages and salaries to the total value of output, which will naturally vary for different industries in accordance with differences in the cost of materials and the relative amount of plant and other fixed capital by which the efforts of labour are assisted. It suffices to say that expenditure on wages and salaries is a very important element in the costs of industrial processes.

In our " Survey of Industrial Relations " we gave a detailed survey and analysis of the situation as regards wages, and a comparison of the position in or about the year 1924 with that which obtained ten years previously, i.e., just before the war. That

analysis was made from the point of view of the recipient rather than of the employer. It related to the amount of wages received for a full week's work rather than to the effect of that wage payment on the costs of the industrial undertaking. The latter aspect of the problem was analysed in our "Further Factors in Industrial and Commercial Efficiency," where a comparison was made between the rise in labour costs per unit of output in certain selected cases and the average rise of weekly wages.

We do not propose to attempt to recapitulate the results of these analyses, beyond observing that the available data indicate that since the last year before the war there has been an average rise of from 70 to 75 per cent. in money rates of weekly wages in this country, the proportionate rise being considerably less for skilled than for unskilled occupations, and for the "exposed" than for the "sheltered" trades. Over the same period our sample analysis of costs of production indicated a rise of labour costs somewhat in excess of the increase of weekly wage-rates, and after making allowance for all relevant factors we came to the conclusion that the discrepancy was mainly due to the fact that, in many industries, the reduction that had taken place in the length of the normal working week has not as yet been fully offset by increased productivity.

Similar figures showing the relation of labour cost to wages rates in other countries are not available, but the official figures with regard to wages and production in the United States indicate clearly that, while the rates of industrial wages have risen in recent years, the cost of labour has formed a diminishing percentage of the value of the industrial output. Such facts as these emphasise the gravity and urgency of the problem which has to be faced in this country, and in all that follows with regard to wages, methods of remuneration, and hours of labour this point of view has been continually kept in mind.

The Settlement of Rates of Wages.

Prevalence of voluntary system.

Generally speaking, and subject to the two exceptions noted below, reliance is placed in this country on the settlement and variation of rates of wages by voluntary negotiations between the parties concerned. In our "Survey of Industrial Relations" a detailed description is given of the methods employed in different industries for fixing wages and other conditions of employment by collective agreement, and the whole question of the machinery of industrial negotiation is discussed in a later section of this Report.* While the precise nature of the machinery varies very widely according to the circumstances of particular industries and doubtless in some cases is capable of further improvement and development,

* See pp. 112 et seq.

the system taken as a whole works well; and it is no valid criticism on it that it does not always provide the means for automatically preventing the possibility of a break-down in those cases (a very small minority of the total questions dealt with) in which all the successive stages of direct discussion and collective negotiation may fail to produce agreement.

However imperfect they may be, and however open to criticism may be some of their results, we are convinced that on the whole the methods of collective negotiation and settlement of wages questions, which have grown up spontaneously in accordance with the varying circumstances of different trades, are vastly preferable to any uniform cast-iron system imposed by law. There is abundant evidence that this view is shared by the representative organisations both of employers and employed in the principal industries. In particular we find in the evidence before us no substantial support from any quarter for any proposal to replace or to supplement the existing system by any form of fixing wages by compulsory arbitration. It appears to us that the experiments made in Australia and New Zealand to fix wages by compulsory awards of Industrial Courts could not be suitably applied to the complex industrial conditions of Great Britain. We consider that, apart from exceptional cases dealt with below, the introduction of legal penalties for non-observance of awards would prove in practice to be an illusory protection, unnecessary in the great majority of cases and inoperative in the few critical cases in which a strong and aggressive organisation might elect to defy the law. This, of course does not apply to voluntary agreements providing for penalties for non-observance. We think, moreover, that any attempt to build up a coherent and equitable system of wages in industries generally, by means of a series of legal awards, each of which is primarily concerned with solving an emergency in some particular industry, would be an experiment full of danger and bound in the long run to break down.

It is of course highly desirable in the general interest of trade and employment that voluntary arrangements for the collective settlement of wages should not only be extended to cover as large an area of industry as possible, but should be strengthened and perfected in detail so as to reduce to a minimum the possibility of a break-down. It is also manifest that, in view of the deplorable injury which may be inflicted on the public generally by a long continued and widespread stoppage in any branch of industry, it is impossible for the State to maintain a purely passive attitude. We shall recur to both these points, the importance of which is not confined to wages negotiations, when dealing with the question of industrial peace. (See pages 113 and 115.)

All this, however, is quite consistent with the maintenance of the principle that the normal method of settling general wages rates should be collective negotiation between voluntary organisations.

Naturally, this free negotiation takes place within the framework of any limits imposed by law for the purpose of ensuring the observance of certain minimum conditions of working. Moreover, the conclusions indicated above imply the existence of strong, active and representative organisations on both sides, interested in conducting voluntary negotiations and capable of enforcing the general observance of agreements which depend wholly on moral obligation. These conditions are by no means universally prevalent, and in the two notable classes of cases about to be mentioned one or other of them is practically non-existent.

Trade Boards Acts.

In the first place there are a certain number of industries (popularly known as " sweated " trades) in which for various reasons trade organisation is weak and ineffective, and in some branches of which, partly as a cause partly as a consequence of this absence of effective organisation, rates of wages have in the past been so exceptionally low as to appeal powerfully to the public conscience. The needs of these exceptional industries, which *ex hypothesi* cannot, at least at present, be dealt with by voluntary organisation, have been largely met by the Trade Boards Acts of 1909 and 1918, which provide for the compulsory enforcement of minimum rates of wages. These rates of wages are determined by statutory Boards containing not only members nominated to represent employers and workpeople but also a certain number of disinterested members who in practice hold the balance between the two sides.

We do not think it necessary to recapitulate in detail the provisions of the two Acts or their mode of administration, which are described in our " Survey of Industrial Relations."* We have received no evidence of any substantial prejudice caused to the competitive power of British export trade by the operation of these Acts as actually administered, though apprehensions as to the possibility of their undesirable extension to other trades were expressed by some witnesses. Others, however, urged that the system should be more widely applied. It is manifest that the Acts have had important and beneficial effects in diminishing poverty and extreme hardship in the trades to which they have been applied. In our judgment this success has been largely due to the fact that Trade Boards have generally based their rates not on any theoretic minimum standards of life but on the practical conditions of the industry and on a comparison with the rates arrived at by voluntary agreement in other industries for somewhat similar services. This policy was indicated by implication in the Act of 1909, which defined the scope of the Trade Boards as industries in which the rate of wages prevailing in any branch is " exceptionally

* See pp. 52 and 287—293.

low as compared with that in other employments." Some of us regret the disappearance of this limiting formula in the Act of 1918, and agree in principle with the recommendation of Lord Cave's Committee of 1921–22 that it should be restored. We understand, however, that in fact no Trade Board has been established under the Act of 1918 that might not have been set up under the earlier Act, and that the new Boards have usually fixed their minimum rates on the same basis as the old. So long as action is confined to cases where the two basic conditions exist, namely, (*a*) the want of adequate organisation, and (*b*) the prevalence of exceptionally low rates of wages, there appears to us to be no ground for apprehension that the undue extension of Trade Boards may have serious repercussions on the free working of the normal wage-fixing machinery in the organised trades. On the contrary, the machinery of the Trade Boards Acts seems to us to fill a gap which the ordinary machinery of voluntary negotiation cannot cover.

The only substantial possibility of overlap arises in connection with the relatively high minimum rates fixed by Trade Boards for craftsmen or others employed within the ambit of the "sweated" trade, but whose rates of wages may by no means have been "exceptionally low" compared with those in other employments. The Cave Committee made some recommendations with a view to treating by a different procedure the basic minimum rates, and those applicable to the higher grades of workers. They would confine the application of criminal penalties to contraventions of the basic minima, while giving only a civil right of recovery in the case of other rates, which would be fixed by agreement between the two sides, the "appointed" or disinterested members having no vote. Though in view of the inquiry of the Cave Committee we have not thought it necessary to make a special and detailed examination of the working of the Trade Boards Acts, we feel the desirability of establishing in practice some reasonable line of demarcation between the field of operation of the wage-fixing machinery of these Acts and that of the machinery of free negotiation which prevails in normal industry. It occurs to us that in principle a sound criterion would be whether or not the particular grade of workers concerned had been "exceptionally" low-paid in the sense of the Trade Boards Act of 1909. We recognise, however, that such a test would sometimes be difficult or impossible to apply with any degree of strictness, and that it only affords a rough working rule, which could hardly be embodied in legislation, but to which a Trade Board and the Ministry of Labour might with advantage have regard in considering the question of compulsory application.

We realise that, if the scope of the compulsory operation of the Trade Boards Acts were defined in practice by the above principle, the question might reasonably be raised whether the same principle should not be equally applied to basic minimum rates of wages fixed by agreement in trades outside the operation of the Acts, for

exceptionally low-paid grades of workers. It is more convenient to discuss this question in connection with the claim put forward by certain Joint Industrial Councils for the compulsory enforcement in certain circumstances of their agreements. (See below, pp. 123–6.)

Negotiations under artificial conditions.

The other important exception to the principle of fixing wages by free collective bargaining arises where one side to the negotiations has inadequate incentive to maintain its point of view, so that rates of wages may be fixed which are oppressive to third parties or repugnant to the general public interest.

This case may arise in its acutest form where the wages negotiation is between a trade union and a municipal or other public authority. We do not doubt that the representatives of the management of great municipal undertakings are actuated by a strong sense of duty towards the public whom they serve, but they are not always certain of support from their Councils, or even from the ratepayers, in insisting that rates of wages paid shall be in general conformity with those recognised for corresponding work in private industry. Sometimes there may even be a definite policy of giving a lead to private industry, by forcing up the level of municipal wages above the level which prevails outside. But whatever may be the merits of such a policy, it is clear that the attitude of negotiators who are influenced thereby must differ widely from that of employers' representatives bargaining with a trade union. This matter is of some importance from the point of view of our present inquiry, not because the employees of public authorities are engaged on production for export, but because any appreciable rise in the real cost of public services may have a reaction on the costs of export industry, through the increase of local rates or of the charges for such municipal services as power, light and water.

Recently an attempt has been made, through the machinery of the local government audit, to deal, at all events in part, with the more extreme cases in which expenditure on wages by local authorities is thought to be excessive. The district auditor has power to disallow items of expenditure contrary to law and to surcharge them on the person responsible. By a decision of the House of Lords in 1925* this power was held to include the disallowance of wages fixed arbitrarily at an excessive figure " without regard to the nature of the services rendered and to the ordinary prevailing standards of remuneration in the occupation concerned." The Audit (Local Authorities) Act of 1927 has rendered the Auditor's action more effective by making the amount of the surcharge recoverable as a civil debt, and disqualifying transgressors under certain conditions from membership of a local authority for five years. We understand

* Law Reports (Appeal Cases) for 1925, p. 100.

that the decisions of the Courts make it clear that when the scale of wages exceeds the market value of the services, as determined by the relevant awards or agreements, by more than 10 per cent., the duty to disallow arises. There has of course been no sufficient experience as yet of the working of this procedure to enable a judgment to be formed as to its efficacy. It is obvious that the method of disallowance and surcharge can in practice only be exercised in the case of local authorities subject to district audit.* Though the fear of it may act as a wholesome restraint on arbitrary extravagance, it cannot dispense with the necessity of establishing a definite rule, either by law or administrative practice, that public authorities should always so far as practicable fix their rates of wages by reference to the market conditions observed by good private employers for the corresponding grades of labour. This principle is the natural correlative of the "Fair Wages Clause" applicable to public contracts, and though in some cases there may be no outside standard for identical employment which can be appealed to, the general standards prevailing for somewhat similar grades of labour are usually ascertainable.

Continuance of Voluntary System.

Subject to the two exceptions noted above, we can see no method of determining and varying general wages rates which, in existing conditions, could be substituted with advantage for the variety of methods of negotiation and agreement which are usually termed collective bargaining. In the two extreme cases, one at each end of the scale, where some of the essential conditions of free collective bargaining are lacking, there is a field for public action in order to ensure that rates of wages in these cases shall conform as nearly as may be to those freely ruling in other industries for similar services.

Our general approval of collective bargaining as the normal procedure for settling wages does not of course imply detailed approval of the results reached by this procedure in any individual instance. At best the bargaining process is a rough and ready method of adjusting differences so as to ensure continuity of production in some particular case. Its outstanding merit is that its results represent the free agreement of the parties themselves and not the decree of any outside authority, and that defects or errors can be corrected by the same method by which the original agreement was arrived at. In these circumstances it would be futile for us to attempt to express any opinion as to whether rates of wages fixed by particular wage settlements are too high or too low. We may, however, be permitted to make certain observations of a more general character.

* i.e., County Councils, Metropolitan Borough Councils, Urban and Rural District Councils, Boards of Guardians and certain Joint Committees, but not Municipal Borough Councils except to a limited extent.

Relation between wages in different industries.

Any system of fixing wages by bargaining, whether industry by industry or occupation by occupation, is liable to give rise to anomalies at the points of contact between different industries and occupations. For industries and occupations are so closely interrelated that any important wage movement in one inevitably has repercussions on others. We are concerned not with any special situation, but with the general problem of ensuring that wages movements affecting different classes and grades of workers shall bear some reasonable relation among themselves, and that there shall be no opportunity for one set of negotiators, by reason of exceptional bargaining power, to secure advantages for those whom they represent at the expense of general detriment to other classes. We are bound to admit that we see no practicable means of ensuring the desired result by any measure of compulsion. It was suggested to us in evidence that the establishment of a National Industrial Council on the lines discussed below (see pages 126–9) would exercise a moderating influence. We do not believe that the trade associations and unions represented on such a Council would be likely to delegate to it any powers with regard to the settlement of their rates of wages. We look with greater hope to the gradual broadening of the outlook of the leaders, whether employers or employed, of the various industries themselves, and to the growing recognition by them of the essential inter-dependence of industries and of the ultimate dependence of all upon the maintenance of our exporting power. To this broadening of outlook it is to be hoped that the discussions on a National Industrial Council might make a substantial contribution. If wages negotiations in particular industries were conducted by leaders on both sides who were fully impressed with the basic considerations set out in this and the preceding volumes, the eventual bargains arrived at would tend to conform more to the general conditions and requirements of trade and industry, and to depend less on the accidental conditions of relative bargaining power within a particular trade.

Relation between wages in "sheltered" and "exposed" trades.

Closely connected with the above considerations is one to which we have already directed attention in our "Survey of Industrial Relations," viz., the relative sensitiveness of the industries which are directly exposed to foreign competition to the movements of trade conditions favouring a rise or demanding a fall of wages, as compared with those "sheltered" industries in which a downward movement of wages can be much longer resisted, because the excess can, at least for a time, be transferred to the consumer. In the latter industries the rates of wages fixed by collective bargaining may sometimes be anomalous, through the indifference of the employers' representatives, who can recoup themselves by passing on an increase

of cost to their customers. As pointed out in our Survey, "the difference between a 'sheltered' and an 'exposed' industry as regards prices and wages depends in the main on the element of time."* In the long run even the "sheltered" industries must be governed by the fundamental condition that export trade must be maintained, and if the burden of cost thrown on the "exposed" industries by uneconomic charges of the "sheltered" trades is sufficiently high and prolonged, the consequent check must eventually have a reaction on the "sheltered" trades themselves. Moreover, any alteration in the relative attractiveness of different occupations or industries must sooner or later affect the relative supply of new entrants and the consequent state of the labour market. Both these forms of pressure act slowly though continuously, but it is to be earnestly hoped that a wider and fuller appreciation of industrial relations and tendencies as a whole will lead negotiators to ensure that rates and conditions shall bear a due relation to the general state of trade and industry, without leaving that adjustment to be brought about slowly and perhaps painfully by the inevitable pressure of economic forces.

Relation between wages in skilled and unskilled occupations.

In our "Survey of Industrial Relations,"* attention was called to a very important feature of the changes in wages since 1914, the great percentage rise in the wages of the less skilled as compared with the skilled workers. The figures show that the money additions to the wage rates of the two classes have been roughly equal in amount, whereas in pre-war times it was customary for these rates to move not by equal amounts but by equal percentages. As wages changes since and before the war have been mainly determined by the same kind of voluntary agencies, this change of ratio between the wages of skilled and unskilled workers appears to point to some new influence arising out of war conditions, which has substantially altered the relative position to the advantage of the less skilled classes. The questions we now have to consider are: (i) what this new influence was and how it arose, (ii) whether the disturbance of the pre-war balance is likely to be permanent or transitory, (iii) whether in either case its social and economic effects are likely to be advantageous or prejudicial to the recovery and development of our overseas trade. We consider these three points in order.

(i) Among the causes which during the war forced up the wages for unskilled labour at a greater rate than those of skilled labour there were two of outstanding importance. In the first place, successive additions were made to wages by way of a cost of living allowance or bonus in order to compensate for the rapid rise in prices during the later stages of the war, and, as these allowances were based on the

* Page 15.

cost of food and other necessaries which absorb a much higher proportion of the weekly expenditure of the lower paid than of the higher paid classes, the additions to wages naturally represented a higher percentage of wages in the former case than in the latter. The second important cause, especially in the engineering and other munition industries, was the greatly increased use of semi-skilled labour on processes of munition work of a kind which according to pre-war practice would have been claimed by skilled craftsmen. For the period of the war the enforcement of trade union restrictions was by agreement temporarily suspended, with the result that the less skilled grades of workers obtained the opportunity of demonstrating their capacity to perform with satisfactory results many operations from which they had previously been excluded. Since the war the previous trade practices were restored, but the changed relation between the wages of skilled and unskilled labour remained.

(ii) Whether the new relation between the wages of the less skilled and more skilled classes is permanent or transitory will, in our judgment, depend ultimately on the question whether the adaptation of productive organisation and methods to the changing conditions of modern industry will enable the former class to earn their relatively higher wage by performing all kinds of work for which they have the capacity, without being hindered by restrictions and demarcation difficulties or by defects of organisation. In this event any prejudicial effects of the disturbance of the pre-war relation between the remuneration of the more difficult and the less difficult types of work may be remedied in the happiest way. Failing this the prospect is much less hopeful. For even if the skilled craftsmen were willing permanently to tolerate the relative depression of their wages as compared with those of their less skilled colleagues, the eventual result must be to affect seriously the sources of recruitment for crafts which require a long period of training and which at the end may offer financial attractions hardly superior to those of occupations for which much less preparation is required.

(iii) It need hardly be said which of the alternatives mentioned in the last paragraph is to be welcomed in the interest of overseas trade. The one holds out a prospect of sound economic development on modern lines, combining low labour cost per unit of output with relatively high rates of real remuneration. The other means the stereotyping of the obsolete distinctions and internal barriers and restrictions which have hitherto hindered the use of human faculties to the best advantage.

We shall recur to this subject in connection with the problem of mobility and demarcation (see pp. 239 et seq.).

METHODS OF REMUNERATION.

Payment by time and by results.

The solution of what we have called the central wages problem of the present time depends not only on the amount of the weekly rates of wages, but on the methods by which they are calculated and the principles on which they are based. Broadly speaking there are two basic principles—payment by time and payment by results; and the application of one or other, or a combination, of these principles to the varying conditions of particular trades has given rise to a great variety of methods of industrial remuneration, which, as indicated in the "Survey of Industrial Relations," will well repay detailed and continuous study. We confirm our previous expression of hope "that the Ministry of Labour will keep experiments in methods of wage payment under close and continuous observation,"* and in this connection we suggest that it would be well worth while, for the purpose of educating the public in this little understood aspect of industrial relations, to bring up to date and republish the valuable Report on "Collective Agreements between Employers and Workpeople" issued by the Board of Trade in 1910.

Our "Survey of Industrial Relations" contained a brief summary of the available information relating to systems of wage payment.† The result was to show that the groups of exporting industries in which payment by results in its widest sense was most prevalent were the textile, mining, iron and steel and clothing groups, while time work was still the most usual method in the engineering and kindred trades and chemical manufacture. In the engineering group, however, there has been a noteworthy extension of payment by results in recent years, and we are informed that more workpeople are now paid by results than by time, particularly in the skilled occupations. Taken as a whole, methods of payment by results have been gaining on time work as the basis of wage payment, and probably at the present time the number of employees in the exporting group of industries who are paid on this principle is not far short of the total number of time-workers. From the point of view of cost of production we find every reason to welcome this movement, and to hope that it will be accelerated in the future, under proper safeguards for the workers' standard of life.

In expressing this conclusion we are not unmindful of the abuses of unregulated piece-work in the past, which have left a most pernicious legacy of suspicion and aversion in the minds of certain classes of workmen and trade unions. This tradition of hostility to piece-work is not found in the textile, mining, iron and steel or boot and shoe trades, where for many years the rates of wages for the more

* "Survey of Industrial Relations," p. 17.
† See pp. 105–119.

important categories of operatives have been based on elaborate piecework lists, embodied in collective agreements, and only variable by common percentages fixed from time to time by the general machinery of negotiation in the trade. Nothing, we are assured, would be more unpopular in these trades than a proposal to revert from piece-work to time-work. So far as we can judge, the principal group of industries (other than the building and furnishing group which are outside the exporting trades) where piece-work still encounters difficulties of application is that of the engineering and kindred trades, where, however, there is at the present moment a very remarkable movement in its favour. In these trades the variety of processes and products is so great that the framing of standard piece rate lists has been found very difficult, and piece rates are for the most part fixed on an individual basis. We realise the difficulty of giving a complete safeguard against the cutting of prices, where piece rates are fixed for each article on what must necessarily be an experimental basis*; and we have not sufficient knowledge of the technicalities of the industry to venture to make any specific recommendation. Feeling, however, as we do that the solution of the central wages problem indicated above is largely bound up with the frank and unreserved acceptance of the principle of payment by results, for all operations to which this system is suited, we earnestly hope that no effort will be spared to overcome the difficulties which stand in its way.

Forms of payment by results.

We have used the expression "payment by results" instead of "piece-work," as a more general term to describe a large number of wage systems under which remuneration depends in whole or in part either on the effort of the individual, or on the joint effort of a group of which he is a member. Though plain individual piece-work is by far the most common form of payment by results, the various systems of "collective piece-work" which prevail in certain branches of trade (e.g. in the case of cotton spinners and piecers, rolling gangs at iron and steel works, etc.) and the methods of payment which combine "time" and "piece work" (e.g., the "bonus" systems in blast furnaces and elsewhere) are all of great interest, as representing the spontaneous adaptation of industrial methods to the circumstances of particular trades under a system of free collective bargaining. From our point of view all these methods are to be judged by one criterion; do they tend to yield a maximum of output in proportion to labour cost, while safeguarding the workers' standard of life?

* We are informed that provisions which are considered to provide a complete safeguard have been in operation for many years in the engineering industry. These are contained in an agreement with certain trade unions of 1902 regarding the premium bonus system, and of 1919 regarding piece-work, and in later agreements with other trade unions.

Our " Survey of Industrial Relations " described various systems under which rates of wages are varied automatically with the variations in some index figure or datum relating to the commercial side of the business. For example, a sliding scale of wages based on the price of typical products prevails throughout a large part of the iron and steel industry, and appears to meet with general acceptance. The possibility of extending such a system to other industries is, however, limited by the fact that in the case of many commodities there is no clearly recognisable connection between variations in selling prices and rates of wages.

Another type of arrangement bases wage variations on the movement of the profits or surplus earned by the industry, either as a whole or by sections, and provides for the division of the surplus on a pre-determined basis between the workpeople and the other factors in production. The outstanding example is the system established in the coal mining industry in 1921 (" Survey of Industrial Relations," p. 111).

Whatever be the merits or defects of schemes which base wages on the ascertained capacity of an industry to pay, they at least present what we consider the desirable feature that they involve the disclosure to the workpeople, or their representatives, of the essential facts relating to the financial position of the industry or business concerned. Even in cases where no definite system of varying wages by reference to selling prices, profits, etc., is in force, it still seems to us highly desirable that employers should take the workpeople into their confidence on such matters to the fullest extent practicable, as we believe that the results would be of great value in establishing and maintaining confidence, and so securing the full co-operation of all parties in production. We shall return to this important question of publicity when dealing with Works Committees (page 123) and with Statistics, (pp. 233–4).

Certain other methods of industrial remuneration have been brought to our notice, which have not been evolved spontaneously from the free play of industrial conditions, but have been consciously devised as social experiments, with a view to harmonising industrial relations or to improving the conditions of labour.

Profit-sharing and co-partnership.

One of the methods which has been strongly advocated is that generally known as " profit-sharing " or " co-partnership," the name given to a variety of schemes which " agree in making the remuneration of the employees, or of some classes of employees, depend in part on the rate of profit realised by the undertaking in which they are employed."* Sometimes a part of the workers' share

* " Survey of Industrial Relations," p. 17.

of profits is invested in the undertaking, and in a number of cases the participants are entitled, either on the basis of the money so invested or otherwise, to have or to acquire some voice in the management of the concern.

The statistics* do not indicate that profit-sharing schemes are widely spread or extending in the great exporting trades.† We have, however, received evidence of the successful operation of such schemes in certain industries, perhaps the most remarkable example being that of the gas companies, which with their stable demand and practically certain profits present an obviously favourable field for an experiment of this nature. There is no room for doubt that in the case of these companies the profit-sharing and co-partnership schemes have worked to the satisfaction of the participants and have greatly improved the relations between the companies and their employees. We are glad to record this success, and we are far from wishing to discourage any other well-considered experiments that may be made under suitable conditions. In spite of individual successes, however, we are not satisfied that the experience of these schemes throws much light on the possibilities of profit-sharing in its general application to the great exporting industries, exposed as they are to the full blast of foreign competition and liable to wide fluctuations of prosperity. We see little immediate prospect of the development of profit-sharing in these industries on a scale which would make any very substantial contribution to the solution of the problem with which we are concerned. We rather expect that schemes of this kind will, in the future as in the past, be most successful in " sheltered " industries or public utility undertakings, working for a definite demand, especially where the personal and other conditions are favourable.

We doubt whether it is generally wise to encourage the investment by workpeople of their savings in the business in which they are employed, unless that business has the stability and permanence possessed by some of the great public utility undertakings. It is true that examples may be quoted from American large-scale business in favour of the widespread creation of employees' shares. But the allocation of such shares has no necessary or general connection with profit-sharing properly so-called.

Our attention has been called to a proposal (embodied in a private member's Bill) which would in effect confer on statutory undertakings or limited companies the right to introduce profit-sharing schemes if they so desire without further authority from Parliament or any Court. A measure confined to this object would have our entire approval, as it would remove a possible impediment to the free development of enterprise and to varied experiment in the field of

* See " Survey of Industrial Relations," p. 318.

† We understand, however, that a profit-sharing scheme has been recently adopted by Imperial Chemical Industries, Ltd.

industrial relations. We should, however, strongly deprecate the adoption of any of the proposals, which have been pressed on us by some witnesses, that statutory or other companies should be compelled or induced by some kind of differential treatment to adopt schemes of this nature. While we favour the removal of all artificial obstacles to the adoption of this or other methods of adjusting industrial relations, we cannot see that the success hitherto attained in certain industries by profit-sharing schemes, introduced by voluntary agreement, affords any warrant for an attempt by the State to force them on unwilling undertakings, nor can we imagine any course more likely to conduce to their failure.

Family allowances.

Another proposed method of remuneration which has attracted some attention is that of Family Allowances, under which the total remuneration of a worker is made to depend in some measure on the number of persons who have to be supported thereby.* Family allowances were introduced into a number of continental countries to counteract the effects of the rise of cost of living due to the war. Since the fall in the cost of living the area covered by the operation of these schemes has very greatly diminished, but they still exist to some extent in France, Belgium and Germany. It is customary under these schemes to guard against the danger of handicapping men with families in seeking employment, by means of a pooling arrangement under which the family allowances are paid out of the joint contributions of employers in the trade and not directly by the individual employer.

We recognise the validity of the principle of family allowances in all cases where payments have to be related to the need of the recipient rather than to his contribution to production. This principle has rightly been embodied in the present Unemployment Insurance Scheme, and of course it has long formed the basis of poor relief. But the principle of fixing ordinary industrial wages in accordance with need rather than performance appears to us so inconsistent with the general practice and basis of modern industry, that we see grave difficulty in any attempt to fit it into the present framework of free collective bargaining as actually practised in our principal trades. If the family allowances were a clear addition to standard wages they would of course be welcomed by the workers, while employers would naturally regard them simply as a fresh addition to wages cost. If, on the other hand, the allowances were paid out of deductions from wages, the resulting re-distribution of national income as between the single and married worker would be likely to arouse strong hostility on the part of the former, especially as a single worker may frequently have relatives dependent on his earnings. The whole subject requires

* See "Survey of Industrial Relations", pp. 123–6.

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further consideration and discussion. If, as the result, a strong and general desire should manifest itself to make better provision for the period of life when family expenses are generally at the maximum, beyond what is possible through the ordinary methods of personal saving, it appears to us that an appropriate scheme of contributory insurance might possibly offer a more feasible way of achieving the object within the framework of present society than a revolutionary change in the method of wage fixing.

Cost-of-living sliding scales.

During the war period the rapid rise in prices led to a widespread practice of fixing rates of wages by reference to the Index of Cost of Living then published periodically by the Board of Trade and since continued by the Ministry of Labour. Under the conditions of extreme instability which followed the war this practice was continued, and it undeniably affords the readiest means of automatically varying the rates of money wages so as to yield approximately the same "real wages" in terms of purchasing power. As the conditions of prices have become more stabilised, the necessity of fixing wages by reference to the Cost of Living Index has been reduced, while the practical difficulties of applying this method have become more evident. It is clear that, while the Index is a very valuable statistical device for measuring average changes in the purchasing power of wages over a wide area, it is only applicable with qualifications to the case of a particular class of workpeople in a particular place. Moreover, the very fact that the movements of the Index may involve a change of wages for many thousands of persons inevitably tends to stereotype its basis and hinder its revision. While, therefore, we strongly approve of the use of the Cost of Living Index for purposes of wage determination in times of fluctuating prices, we look forward to a time when the increased stability of prices will render this use unnecessary.

(2) Hours of Labour.

Great Britain.

General considerations.

The problem of hours of labour and of their relation to industrial costs and competitive power is correlative to that of wages which has just been discussed, and part, though not all, of what has been said on that subject is applicable *mutatis mutandis* to hours. The existing position and recent tendencies as regards the prevailing hours of labour in the principal industries in Great Britain have been examined at length in our "Survey of Industrial Relations."* It has there been shewn that the question, like that of wages, has

* See pp. 18–25 and 128–138.

a double aspect—a social aspect from the point of view of the workman's physical and moral welfare, and an economic aspect from the point of view of industrial costs and particularly of overhead charges. Though we are bound under our terms of reference to look at the question of hours, like that of wages, primarily from the point of view of competitive power, we fully recognise the importance of its social side, and it has in fact been abundantly proved that excessive, irregular and ill-arranged hours of labour have an injurious effect on the health and consequent efficiency of the worker which is, generally speaking, reflected in increased cost of labour. For many reasons, mainly based on considerations of social well-being, the regulation of hours of labour, including the limitation of overtime, has been more generally and definitely recognised as an object of collective effort, both voluntary and legislative, than the regulation of wages. The hours of labour of " protected persons," i.e., women and young persons, have been fixed by law for many years, and it has been well understood and accepted that this regulation must indirectly limit the hours worked by many adult men. Outside the limits of protected persons the only classes of industrial workers whose maximum hours are fixed by law are coal miners. In the main the hours of labour of adult men employed in industry are determined by voluntary agreements negotiated, if need be, through the same machinery of conciliation and arbitration as that by which rates of wages are fixed and varied.

Nevertheless, as was indicated in our Survey, the history of the last thirty or forty years shows that changes in hours of labour have during that period followed a very different course from changes in rates of wages. Money wages have gone up and down in accordance with the vicissitudes of trade and employment, but there has been a continual tendency towards a decrease in hours—a tendency which has been accelerated or retarded according to the state of trade, but which, until the wholly exceptional situation which arose in coal-mining in 1926, has never been actually reversed.

Effects of recent changes.

During the twenty years which preceded the war the average rate of reduction of hours was so slow as to be almost inappreciable, the total reduction in twenty years having amounted to less than one hour per week, if spread over the entire industrial population. But since the war the movement has wholly altered its character and pace. During the two " boom " years 1919 and 1920 which immediately followed the war the average hours constituting a full week's work in the principal British industries fell by five or six, or roughly by about 10 per cent. or, in other words, from between 53 and 54 to 48 or even 47 per week. So large and sudden and general a reduction naturally put a great strain on the industrial machine, and in many trades it had a

marked effect in increasing the cost of production especially at the outset. Though, on the average, this effect has since been partly offset by increased efficiency or better organisation, it was made clear in the analysis of costs of production in our " Further Factors in Industrial and Commercial Efficiency,"* that the result of the reduction of hours on costs has by no means been universally balanced by increased productivity. While in some industries there has been a considerable increase in output per hour, in others, e.g., the cotton trade, where the machinery employed was already working at its maximum speed, no substantial acceleration of production has been found possible. Notwithstanding this fact there have, with the notable exception of coal-mining, been very few efforts to revert to longer hours, and a careful scrutiny of the evidence given on behalf of trade associations does not disclose any serious desire or expectation that such a reversion should take place. We are aware that a demand for the lengthening of hours in the cotton trade, accompanied by a number of other proposals designed to affect costs of production, was put forward by the employers within the last year, but it was speedily withdrawn in face of the strong opposition which it encountered. As will be seen below, much of the evidence of employers was adverse to the fixing of hours by law or treaty, but the main ground of their opposition appeared to be the desire to retain sufficient elasticity to enable them to meet special needs and emergencies, rather than any wish to add to the length of the normal working day. Broadly speaking, we think it may be said that most employers regard the post-war reduction of hours as a *fait accompli*. On the other hand, it is perfectly clear from the evidence that any general proposal to lengthen the normal working day would meet with the most strenuous resistance from the Trade Unions.

No doubt there are many possible modifications of existing practices with regard to the working day or week, e.g., the arrangement and distribution of hours, the limits and conditions of overtime, the length and distribution of rest periods, the conditions of double shifts and similar matters, which are desired from time to time by employers or employed in various trades, with a view to increased productivity, lower costs, or reduction of fatigue. The situation with regard to these important questions was dealt with in our " Survey of Industrial Relations." They all are, or in our judgment ought to be, open to mutual discussion, trade by trade, through the ordinary machinery of industrial negotiation; and, in view of the immense importance of industrial elasticity and mobility in relation to cost of production to which we have more than once called attention, we earnestly hope that throughout any such discussions the paramount importance of preserving and increasing elasticity, subject to adequate safeguards for social well-being, will never be lost sight of.

* See pp. 7 et seq.

From the same point of view we desire to emphasise the vital necessity of securing adequate recognition of the need of elasticity in any international Convention with regard to hours of labour to which Great Britain may hereafter become a party.

It is not improbable that the wise settlement of these questions, on the basis of maximum elasticity for the employer, combined with maximum welfare for the worker, would in many trades have a greater effect on labour costs than any mere alteration in the length of the normal working day. If we interpret the evidence aright, this is the view taken by many employers. In forming any judgment as to how far this attitude is right and reasonable it is necessary to take note of a very significant feature of the altered economic outlook since the war.

International Regulation of Hours.

Provisions of Peace Treaties.

The treaties of peace embodied an affirmation that an improvement of conditions of labour "is urgently required," and this general declaration was followed by a list of illustrations, the first of which was "the establishment of a maximum working day and week," followed by others relating to the regulation of such matters as labour supply, unemployment, living wages, protection against sickness, injury and old age, the protection of children, young persons, and women, and freedom of association. A later article treats the same matters in greater detail, and in particular declares that, subject to certain reservations on account of climatic and economic differences, the adoption of an eight hours day or a forty-eight hours week is the standard to be aimed at where it has not already been attained.

The greater part of the subjects enumerated in the treaties as needing to be dealt with in order to effect the "improvement of conditions of labour" declared to be "urgently required" are matters in respect of which this country already leads the world, and since the date of the treaties further provision has been made in regard to several of them by means of international conventions, in the framing of which British representatives have taken a prominent part, for raising the general standard. In the matter of hours of labour more has probably been effected in Great Britain by voluntary agreements to bring the length of the working day and week into conformity with the treaties than in most of the principal countries with which we are in competition, even including those countries which have enacted legislation on the subject. It is necessary to make this point perfectly plain, because there has been far too much unfounded suggestion that Great Britain has lagged behind other countries in giving effect to the obligations of the peace treaties in respect of the general improvement of labour conditions.

Nevertheless it appears to us that the obligations laid upon the parties to the treaties of peace cannot be said to have been adequately met so long as the important declaration with regard to hours of labour is not generally and effectively fulfilled. It is true that an attempt was made at the Washington Conference of 1919 to give practical effect to the treaty declaration, but unfortunately the Convention framed for the purpose has not so far met with any general acceptance from States of commercial importance.

The embodiment of a provision of this nature, however vague and guarded in language, in the treaties on which the general peace settlement rests, is an event so unprecedented in character and of such outstanding importance, that the pre-disposing causes which led to its unanimous acceptance by the signatory Powers merit careful examination. The two crucial facts are (1) that the treaties gave unanimous expression in the most solemn form possible to the desires of organised Labour throughout the greater part of the world for immediate social improvement, and (2) that the foremost of the desires so expressed was for the general adoption of an eight-hours day or a forty-eight hours week.*

It is natural that at the end of the Great War, with its stupendous efforts and consequent " war weariness," a guarantee of reasonable leisure for the future should present itself to men's minds as the greatest good immediately attainable, and it would be rash to insist that the language of treaties framed under the stress of the emotional and psychological conditions which prevailed at the Peace Conference is conclusive evidence of the settled and permanent convictions of mankind. We are bound to say, however, that we see no evidence that more recent events, including the experience of the long continued depression of trade through which this country has been passing, have in any material degree weakened the conviction of those who speak on behalf of British labour either as to the necessity of opposing any increase in standard hours, or as to the great importance of inducing other countries, if possible by means of an international agreement, to bring their hours of labour more into conformity with those current in Great Britain.

It appears to us that the language of the treaties of peace, laying down a certain length of working hours as " the standard to be aimed at where it has not already been attained " is incompatible with the adoption of any policy of reverting to longer hours. We think, moreover, that, whatever be the defects of the Washington Convention on Hours of Labour, the mere refusal or omission to ratify this particular agreement does not release a State from its continuing obligation under the treaties of peace to seek means to give effect to the aspiration expressed therein.

* See Treaty of Versailles, Preamble to Part XIII and Article 427.

If, however, these premises be admitted and if consequently any general increase in the length of the normal working day in British industry is barred, not only by Trade Union opposition but by the obligations of the treaties of peace, it can hardly be doubted that the right policy to pursue in the interests of British competitive power is to endeavour to conclude a suitable Convention which shall so far as possible safeguard our industries by establishing an international standard of hours.

Unfortunately the question of principle has become so inextricably bound up in men's minds with the political question of the ratification of the Washington Convention that it is difficult to consider it dispassionately and on its merits. An examination of the evidence makes it clear that the trade witnesses who appeared before us were thinking almost exclusively of the stipulations of the Washington Convention. Nevertheless, we deem it essential to endeavour to separate the two matters, and to arrive at a sound conclusion as to the conditions which should govern any international agreement on hours of labour to which this country could become a party, irrespective of the detailed stipulations of any particular instrument.

Washington Convention.

Before, however, analysing the trade evidence on the whole subject it is desirable to summarise very briefly the provisions of the Washington Convention itself.

Broadly speaking, the Convention extends to the whole range of manufacture, mining, building and construction, and transport by land, but not to agriculture or commerce. It prescribes that the working hours of employees, other than persons holding supervisory or confidential positions, shall not exceed eight in the day and forty-eight in the week. This rule is subject to certain exceptions. For example, daily hours on some of the days of the week may under certain conditions be lengthened by an hour, provided that the weekly limit is not exceeded, and there are other exceptions to meet the case of breakdowns, shifts and continuous processes. Power is also given to permit by regulation certain exceptions for preparatory, complementary, and intermittent work, and also temporary exceptions to meet special pressure of work. Except for these special and emergency exceptions there is no provision for overtime as understood and practised in this country. There are, however, a number of exemptions and relaxations applicable to particular countries, notably India and Japan.

The evidence which we received from the representatives of trade associations was practically unanimous in opposition to the unconditional ratification of the Washington Convention in its present form. But there was a great diversity among the different trades as regards the extent and grounds of this opposition. Some (e.g., the representatives of the iron and steel, the engineering, and the woollen and worsted trades, the railway companies, the shipowners

and certain Chambers of Commerce) were opposed to compulsory regulation of hours on grounds either of principle, or of the need for preserving elasticity, or of the special conditions of their industries. Others (e.g., the representatives of the cotton trade, locomotive builders, electrical manufacturers, cable makers, and some of the Chambers of Commerce) did not object to this country participating in an International Convention on hours, provided it were universally adopted and generally enforced. Their opposition to ratification was based on scepticism as to the prospect of obtaining general adhesion to such a Convention, and of securing its effective enforcement by some of the foreign countries with which their industries are in keenest competition. The view was also expressed that the Washington Convention made insufficient allowance to enable an industry to cope with emergencies and to meet fluctuations of demand. Subject to the possibility of meeting these difficulties, some of the witnesses (e.g., the representatives of the electrical manufacturers) expressed the view that an International Convention would help to equalise the conditions under which they have at present to compete. It should, however, be added that the representatives of those trade associations which were not unconditionally opposed to the international regulation of hours of labour, generally gave us the impression that they had very little expectation that it would be found possible to secure effectively the conditions which they regarded as essential.

The evidence on behalf of Trade Unions and Co-operative Societies was generally favourable to ratification of the Washington Convention, but there was clear recognition of the danger of divergent interpretation and practice. Thus, one representative observed that "mere ratification of the Washington Convention will be of no value to British industry. The value lies in agreed interpretation and strict application." It is true that one witness advocated that we should "adopt the policies adopted by other countries of inserting qualifications which enable them to vary the terms in order to save their industrial lives." If this suggestion meant that the strict British practice in respect of the fulfilment of treaty obligations should be levelled down to that of the laxest foreign country, we do not think that it would receive serious support from any quarter. If, on the other hand, it meant that ratification should be accompanied by express reservations so as to ensure the necessary minimum of elasticity, the view expressed is practically in agreement with that held by a number of trade associations. We understand that it is the considered view of the Trade Unions of railway employees (differing on this point from the authorities of the International Labour Office), that the peril which would result from unconditional ratification to their present national agreement regulating hours of labour could only be removed by revision or reservation, and not by any interpretation of the text.

On the whole we consider that, apart from objections of principle to any legal restriction whatever of hours of labour, the balance of argument is in favour of the view that an International Convention for the limitation of hours of labour would be beneficial to British industry, provided that it were widely accepted and effectively enforced, and provided that it made adequate provision for necessary elasticity and for authoritative interpretation. Conversely, we are of opinion that without the fulfilment of these conditions ratification of the existing Washington Convention would be a hazardous step. Subject to the considerations set out below, it appears to us that the weight of argument is in favour of adhesion to a revised Convention, but against unconditional ratification of the present instrument.

Revision of Convention.

It is sometimes urged that revision is bound to take so long a time and the eventual result is so doubtful that it is unwise to make the attempt. Some of our members, who take this view, draw the conclusion that it is best to take the risk of adhering immediately to the present Convention, hoping that the example of this country will be widely followed, and leaving over the question of revision to be dealt with in 1931 when in the ordinary course it will come up for consideration. Others draw the opposite conclusion, believing that the effort to secure really adequate safeguards for British industry in an International Convention is practically bound to fail. While, however, each of these opposite points of view is regarded sympathetically by some of our members, we feel that in existing circumstances it is impossible to recommend either the unconditional ratification of the Washington Convention or the abandonment of any attempt to secure a more satisfactory international agreement. Even those of us who for various reasons are most sceptical of the possibility of satisfactory revision do not dissent from the conclusion that the attempt ought to be made.

So far as we can judge, the most important amendments required are provisions for securing a greater degree of elasticity to meet fluctuations of demand, for providing authoritative means of interpretation, and for enabling each participating State to recover its freedom in the event of the failure of other participants to enforce the provisions of the Convention, or possibly also in other contingencies to be discussed below.

It may be argued that it is imprudent to commit Great Britain to any compulsory restriction of hours of work so long as so important a competitor as the United States is free from such restriction. It must be admitted that this argument is not without weight, and moreover that there seems to be at present very little prospect of the United States becoming a party to any International Convention for the fixing of maximum hours of labour. Such a step indeed would probably require an amendment of the American constitution. The

United States view with great distrust all regulation by law of such conditions of labour as are dealt with in the peace treaties. The Report of the International Labour Office on Industrial Relations in the United States (pp. 10 and 11) says:—"There is, then, not one Labour Code in the United States but forty-eight Labour Codes, framed on no common or uniform plan . . . . It is for the Federal Courts to decide whether the Acts of the State are consonant with the rights and liberties guaranteed . . . . by the Federal Constitution, and, if they are curtailed or infringed, to declare such Acts null and void." Apart from the constitutional question, the British Delegation which studied industrial conditions in the United States in 1926 report (p. 83):—"In the United States it has been a cardinal principle that the incentive to work must be maintained at the highest point and that to provide means of maintenance in the present or expectation of assistance in the future, other than by his own earnings and savings, lessens the driving power and self-reliance of the individual worker." The result is that there is nothing in the United States to compare with State provision in this country for unemployment, sickness and old age; the hours of men are not, and under the constitution cannot be, limited by law; and it is only in some States that the hours of women and children are so limited.

The United States are not bound by the peace treaties, and were not parties to the Washington Convention, and the "cardinal principle" referred to above cannot be reconciled with the obligations in regard to labour conditions assumed by the nations who are parties to the Treaties; but we are not disposed to consider the abstention of the United States as a fatal objection to British recognition of such obligations, including the restriction of hours of work, provided that the conditions set out above are adequately fulfilled and that all the other principal industrial countries are equally bound.

Of the essential conditions which we have laid down for the participation of Great Britain in an International Convention for the limitation of hours of labour, some are clear and simple and should present little practical difficulty. For example, the condition that British participation should only take effect when a sufficiently large number of the chief Commercial States are prepared to ratify is one which lies within the nation's own competence. The conditions that there should be means of obtaining an authoritative and uniform interpretation of the obligations of the Convention and that there should in certain contingencies be power for a contracting State to recover its freedom ought to be generally acceptable. We feel, however, that, in view of the probable abstention of the United States, the contingencies referred to ought to include not only the failure of a participating State to give effect to its undertaking, but also any serious lengthening of hours in competitive industries in an important non-contracting State.

The most difficult and at the same time most essential amendment required is a provision securing reasonable elasticity without destroying the efficacy of the Convention. As already indicated, the Convention as it stands would upset mutual agreements of the highest importance and value which are now in operation in this country to the satisfaction of both parties. The most notable of these agreements is that affecting the hours of railway men; but there are others which would be seriously imperilled, while a number of useful experiments of less general importance (e.g., an interesting scheme for holidays in the engineering trade which was described to us) would possibly become illegal. On the other hand there is a danger lest a wording permitting undue latitude may increase the danger of evasion on the part of some foreign competitors. The right solution will undoubtedly require great skill and patience on the part of the negotiators, and it goes without saying that before any revised text which may emerge from the negotiations is accepted as a binding obligation it must be subjected to careful scrutiny not only by H.M. Government but also by representatives of employers and employed, in order to make certain that it affords the safeguards which are essential to British industry.

Possible action failing revision.

Even if the attempt to revise the Convention should fail, we trust that all efforts at an international understanding will not be abandoned, even if it should be necessary to limit it at the outset to an agreement for the exchange and publication of full information. This information should include not only the recognised hours of labour and the hours actually worked in different industries, but also any rules or agreements whether voluntary or compulsory affecting such hours, and the practical results of such rules or agreements. Such particulars, if digested and published by a Central Office, might be of very considerable educative value, and the only legislation needed would be an Act conferring compulsory powers to require the necessary information.

It should be added that there would be no necessary inconsistency between the suggested agreement and the Washington Convention, and there would, therefore, be no reason why the two should not exist side by side, or why the same country should not, if it pleased, be a party to both.

Meanwhile we are glad to note that the International Labour Office is performing a useful service in disseminating information as to the conditions prevailing in the principal countries as regards hours of labour.

Clerical and Administrative Staff.

The hours of work of the clerical and office staff and of the higher directing officers of industrial and commercial undertakings have not been affected by any legal restrictions and are outside the scope

of the Washington Convention relating to Hours of Labour. The statistics available with regard to these hours are very defective, but we have taken steps to consult such organisations as seemed likely to be able to assist us in the matter, including the Association of British Chambers of Commerce, the Federation of British Industries, the Railway Companies' Association and representative Banking and Insurance Companies. Generally speaking, the replies state that there has been some reduction in the hours of attendance of clerical workers, but that this does not apply to the managing and administrative staff. There is some evidence, however, of a growing tendency among firms to allow office staff to take Saturdays off in rotation. The almost unanimous opinion expressed is that the classes concerned work at least as hard, and are rendering at least as good service, as before the war. It is to be remembered in this connection that the actual hours of office attendance by no means measure the work performed by the higher administrative staff, and also that the pace and intensity of business tend to increase with the increase in the scale of undertakings. There is a general consensus of opinion that any slackening of the "will to work" which may have been observed in the early post-war period has now completely disappeared.

(3) Industrial Peace.

Machinery of Collective Bargaining.

Nature of existing machinery.

In dealing with wages and hours of labour we have incidentally referred to the machinery for collective bargaining by which industrial relations are habitually fixed and varied through voluntary negotiation between the parties to productive enterprise. Since in most years over three quarters of the differences which lead to stoppages of work arise on questions of wages or hours, it is clear that, from the point of view of preserving continuity of production and employment, the settlement of these two matters is the most important function of the joint machinery for negotiation in the different trades. There are, however, other questions affecting the conditions of employment which are also the subject of collective bargaining, and usually, though not universally, the same joint machinery by which wages and hours are settled is also used for the purpose of dealing with other trade questions. For the details of the machinery and methods of collective bargaining in different trades reference should be made to our "Survey of Industrial Relations."*

From the point of view of the present inquiry the main desiderata to be sought are to preserve continuity of production and to maintain such harmonious relations among the parties to production as will conduce to the maximum productivity. With these aims in view we

* See pp. 265 et seq.

are specially concerned to ensure that the voluntary negotiating machinery shall cover the whole field of industry, and that it shall work smoothly and effectively and without undue delays, and shall make all possible provision for the avoidance of stoppages of work and for bringing to an end such stoppages as nevertheless occur.

In this connection we desire to emphasise that the main mischief of industrial stoppages is not the mere loss of working time, which in the aggregate amounts to very much less than the loss due to sickness or unemployment. In a wholly abnormal year like 1926 the lost time due directly or indirectly to some spectacular stoppage may be so gigantic as to give quite a false idea of what occurs in an ordinary year. It was shewn in our "Survey of Industrial Relations"* that the total time directly lost through stoppages over a period of years does not average more than one half per cent. of total working time. Much more important than this relatively trifling loss is the inflammation of animosities and the poisoning of class relations which often result from or are incidental to industrial warfare, together with the blow inflicted by a serious and long continued stoppage on business good will and on the reputation of British trade for certainty of delivery.

As regards the first of the points indicated above, the effective covering of the whole field of industry by voluntary machinery for industrial negotiation, we see no occasion to make any specific recommendation. The greater part of the field is already adequately covered, and we understand that the Ministry of Labour recognise that it is part of their ordinary duties to keep a continuous watch on the means available for the peaceful adjustment of disputes, and to take every reasonable opportunity to secure that adequate joint machinery shall exist, whether in the shape of a Joint Industrial Council or of some other suitable and acceptable means for joint consultation and negotiation. We cordially commend this policy, which in our judgment is more in accord with present conditions and requirements than any renewed campaign for the establishment of one particular type of joint industrial organisation over the whole field of industry.

As regards the second point, the efficiency and smooth working of the machinery and the avoidance of undue delays, we can add nothing to the detailed account given in our "Survey of Industrial Relations" of the existing provisions of trade agreements for this purpose.† Though theoretic perfection is not to be expected, it may be fairly assumed that the parties to the various joint trade organisations are fully competent to correct by agreement such weak points as may be disclosed from time to time in the actual working of the various schemes, by means suited to the practical circumstances of each case.

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* See p. 39.

† "Survey of Industrial Relations", pp. 265–282.

Arbitration Clauses.

The only matter of principle on which, from our special point of view, we feel it necessary to offer any observations is the question of the presence or absence in voluntary conciliation agreements of definite provisions for ensuring that a deadlock shall be resolved without stoppage of work. Twenty years ago it was far more usual than at the present time for voluntary collective agreements to contain an arbitration clause, providing that if and when other means of arriving at an agreement should fail the parties should accept the verdict of an impartial individual or board.* Sometimes the individual was an independent chairman who presided over the joint deliberations, with a casting vote. Sometimes he was a chairman or referee to be called in only after a deadlock had been reached. Frequently the agreements did not name any individual, but only fixed the method by which he should be selected, and this method was often an agreement to appeal to the appropriate Government Department (at that time the Board of Trade) or to some other public authority or officer (e.g., the Speaker of the House of Commons or the Lord Chief Justice) to appoint an arbitrator or umpire or chairman of a Board of Arbitration. None of these provisions, of course, involved any degree of legal compulsion : like the agreements of which they were a part they were entirely voluntary and dependent on moral sanctions both for the carrying out of the obligation and the observance of the award.

An examination of present conditions shews that such provisions have become much less usual in collective agreements, and this change appears at first sight to be a retrograde movement. We are not sure, however, that on fuller consideration this would be a just conclusion, and we are impressed with the explanation that has been given us that in practical experience the presence of an arbitration clause in a collective agreement has sometimes been found to make all the preliminary stages of the negotiation unreal and ineffective. The parties may be less willing to come to terms on a practical compromise if they know that there is a possibility of arbitration in the background, and may hesitate to make or accept concessions at an earlier stage lest their eventual position before the arbitrator should be weakened. It is known that this has been the experience in Australia and New Zealand under the laws providing for compulsory arbitration, and it seems not improbable that a similar result may have sometimes followed in the case of voluntary agreements. Where this has been the practical experience we recognise that it may have been a valid reason for deleting the arbitration clause from agreements, without implying any hostility to arbitration as such, for we attach much greater value to the effective

* On the whole subject, see Report by the Labour Department of the Board of Trade on Collective Agreements, 1910.

working of the machinery for arriving at mutual agreement by consent than to the maintenance in all cases of the arbitration clause.

We note, however, that some trades have adhered to their arbitration procedure, and in certain cases have even strengthened it by the deposit of funds out of which damages may be awarded for contravention. In the case of the boot and shoe trade this system of monetary penalties has lasted for over thirty years, and appears from the evidence to have worked to the satisfaction of both parties. There is a somewhat similar system in a section of the textile dyeing industry. Where arrangements of this kind are acceptable to both parties we can well believe that they may conduce to stability of industrial relations.

On the whole we feel that the inclusion or omission of an arbitration clause in a collective trade agreement establishing machinery for industrial negotiation is not a matter on which any general decision of principle can be taken, but is rather one to be determined on a balance of considerations in each case, having regard to the circumstances and historical background of each industry. In our view arbitration is frequently a useful method of resolving a deadlock, and we are glad to know that the omission of any clause providing for such a contingency in a general agreement in no way precludes a special agreement for the purpose being made *ad hoc* between the parties when a deadlock has actually arisen.

Limits of State action.

When dealing with wages we discussed the question how far and within what limits voluntary negotiation can be trusted to produce fair and reasonable results having regard to all the economic conditions of the problem, and how far and in what circumstances if any it is necessary and desirable for the State to intervene.* The same question may be asked about the results of voluntary negotiation and arrangement in matters affecting conditions of employment and social well-being outside the fixing of rates of wages and hours of labour, as, for example, the maintenance of continuity of industrial production free from interruption by collective stoppages.

It has been suggested from time to time that the State should take action to maintain continuity of production by prohibiting strikes and lockouts. The opinions expressed by our trade witnesses as well as by those connected with labour organisations were practically unanimous in deprecating any such attempt, and we are in agreement with this view. In the first place, whatever opinion may be held as to the desirability or otherwise, in principle, of making strikes and lockouts illegal, it appears to us to be wholly impracticable to enforce in this country a law making it a criminal offence to join with others in withdrawing from employment or in closing down works. The experience of

* See pp. 89–93 above.

Australia seems to us decisive on this point. Moreover, it is impossible to contemplate the enactment of a law penalising employers and workpeople who fail to agree on the terms of employment, without at the same time setting up compulsory machinery to fix suitable terms in default of such agreement. In other words, the penalisation of strikes and lockouts carries with it as its necessary corollary the institution of compulsory arbitration, for which, as already indicated, there is practically no support in this country.

An apparent (but only apparent) exception from the freedom of both parties to withhold their co-operation in order to secure or to enforce more acceptable terms of employment is afforded by the case of certain services (e.g., gas and water), the stoppage of which might be seriously prejudicial to the public interest. But the penalties provided by the Conspiracy and Protection of Property Act, 1875, and other similar legislation only apply to stoppages without notice in breach of contract, whereas the vast majority of strikes and lockouts involve no such breach.

It need hardly be said that in speaking of strikes and lockouts we refer solely to disputes as to the terms of employment and not to movements such as a general strike aimed at coercing the State. Such an act is already prohibited, but the issues raised in connection with a general strike are essentially questions of political and constitutional principle, outside our province.

If compulsory action is inadvisable for the purpose of preventing strikes and lockouts it does not follow that the State may not perform a useful function in the avoidance or settlement of industrial stoppages. It has already been pointed out when dealing with wages that it is impossible for the State to maintain a purely passive attitude in face of a long-continued and widespread stoppage of work.* Hitherto the action of the State has been generally confined, and in our opinion it should continue to be confined, to efforts to promote voluntary agreements between the parties by means of such conciliatory machinery as was originally established by the Conciliation Act of 1896, and has since been developed by the Industrial Courts Act of 1919. An account of the working of the Industrial Courts Act will be found in our "Survey of Industrial Relations."† The machinery consists partly of conciliation, or (with the consent of both parties) of arbitration by the Industrial Court or otherwise, and partly of investigation by a Court of Inquiry, which may be instituted by the Minister of Labour on his own initiative. There is absolutely nothing of a compulsory nature in this procedure, the whole object being to assist the parties to arrive at a settlement, and to bring the pressure of public opinion to bear upon them to do so. The only action that can be taken without any application is the establishment of a Court of

* See p. 89 above. † pp. 44 and 261–4.

Inquiry to ascertain the facts and to inform the public. Moreover, there are provisions, which appear to us to be judicious, to prevent the action of the Minister under the Act from overlapping and interfering with the due operation of voluntary machinery of negotiation.

The only criticisms we have heard of the working of this Act refer to Part II, which relates to Courts of Inquiry. We do not attach importance to the complaint that sufficient use has not been made of these provisions, since we are convinced that their success depends essentially on the exercise of great caution, and the firm refusal to put them in force except where there is a reasonable prospect of the inquiry assisting in the preservation or restoration of industrial peace. We are more impressed by the criticism that Courts of Inquiry are sometimes embarrassed by feeling that they must report within a time limit which may make it difficult or impossible to make a thorough investigation. It is easy to understand that, when a stoppage is imminent or has actually begun, the situation may be so inflamed that something of the nature of a time limit may be the only way of inducing one or other of the parties to accept an inquiry, or of preventing the object being defeated by dilatory tactics. At the same time it is very important for the prestige of the Act that a Court of Inquiry should in no circumstances report without adequate investigation. While, therefore, no effort should be spared to shorten by all practicable means the period between the decision to appoint a Court of Inquiry and the publication of its report, the steps taken for this purpose should never be such as to entail the exclusion of material evidence or otherwise embarrass either of the parties in the presentation of their case. Rather than this should happen it would be better to have no inquiry. We are not suggesting that this has often occurred; on the contrary, so far as we can judge, the reports in general seem to have been judicious and of a nature to be serviceable. We only commend the point to the Ministry of Labour as one to be carefully borne in mind, in the event of a demand for an unreasonable limitation of the time of an inquiry.

Canadian legislation.

It was partly with a view of meeting this difficulty, and of ensuring a sufficient delay to enable a proper inquiry to be held before a stoppage of work occurred, that the Canadian "Industrial Disputes Investigation Act," commonly known as the "Lemieux Act," was passed in 1907. This Act, as subsequently extended and amended,* gives power to the Minister of Labour to appoint a Board of Conciliation and Investigation on his own initiative when a stoppage has occurred or is imminent in the industries to which the Act is applicable (i.e., mines and public utilities), and in any other industry

* Particularly in 1918, 1920 and 1925. See "Survey of Industrial Relations," p. 357.

with the consent of the parties. For an account of the Canadian legislation reference should be made to our " Survey of Industrial Relations."* The feature which has attracted attention in this country and has led to repeated proposals that this country should follow the example of Canada, is the prohibition by law of strikes and lockouts pending the issue of the report of the Board. The penalty for an illegal strike is from 10 to 50 dollars per head per day; that for an illegal lockout is from 100 to 1,000 dollars per day.

The information in our possession shows that the Canadian Act has on the whole worked well, and that there is no serious movement for its repeal. In our " Survey of Industrial Relations " it was pointed out that the Canadian statistics of strikes and lockouts show that industrial stoppages have been more frequent, more prolonged and more widespread since the passing of the Lemieux Act, but this increase is of course in no way attributable to the Act, but to the growth of population and the progress of industrialisation. In the seven years 1917–1924 the number of disputes in the industries to which the Act applies was 750. It was put into force in 252, or about one-third of these disputes, and in 236 of these cases a successful result was recorded. The conclusions to be drawn seem to be that the Canadian Act has proved successful in a large proportion of the cases in which it has been applied, but that these cases have not been more than a third of those to which the Act is applicable, and that it has not prevented an actual increase in the number and importance of strikes and lockouts.

Our information also suggests that the penalty clause has played a very small part in the successful working of the Act, and that in fact the most valuable parts of the law are those which are least dependent on legal compulsion, viz., those which deal with the promotion of conciliation between the parties. In 1918 the United States National Industrial Conference Board after a special research into the working of the Canadian Act expressed the view that " the Act might be quite as strong if the penalty provision were repealed," though they considered that the fact of declaring strikes illegal had, apart from all question of penalty, a restraining effect on the parties to disputes. The official British Delegation appointed to study industrial conditions in Canada and the United States in 1926 stated in their report that successive Canadian Governments had left the enforcement of the penal provisions to the aggrieved parties, and that action for this purpose had only been taken by the parties in eighteen cases, nine of which were sustained by the Courts. The Delegation also expressed the opinion that the Act had been of practical service mainly as a formal and public means of conciliation.

* See also the report of the British Delegation appointed to study industrial conditions in Canada and the United States of America, pp. 78–82. (Cmd. 2833/1927).

We have considered very carefully whether to recommend similar legislation in this country, but, on the whole, we do not advise it. The only essential difference between the Canadian law and the Industrial Courts Act is the provision imposing penalties for strikes and lockouts entered into before the issue of a report by a Board of Conciliation and Investigation. We do not find anything in the Canadian experience to make us believe that such a provision would be capable of enforcement against determined opposition. We prefer to rely on the growth of a general feeling against stoppages of work in furtherance of a trade dispute before all possible means of adjusting the difference have been exhausted.

Adequacy of existing machinery.

We believe that, in spite of the unfortunate experience of the year 1926, possibly to some extent as the result of that experience, the feeling against recourse to stoppage of work as an ordinary means of adjusting industrial relations is spreading and deepening in this country. Certainly the evidence given to us showed that in most industries the relations between employers and employed are close and friendly, and there was a striking absence of any general demand for a change in the existing machinery for industrial negotiation except in a few matters of detail. Complaints that industrial unrest was prejudicing efficiency of production were very rare. On the whole we feel justified in concluding that the relations between the classes engaged in production are generally such as to form a satisfactory and stable basis for collective bargaining, and also to afford a strong presumption that, within the limits and subject to the exceptions already discussed, the results of such bargaining will generally conduce to the public interest.

WORKS COMMITTEES.

There is a widespread and growing conviction, which we fully share, that, in order to ensure industrial peace and to maintain mutual relations of confidence and goodwill, it is not sufficient to perfect machinery for negotiation between representatives of employers and trade unions on such subjects as general wage rates, working hours and conditions. Not only is such machinery liable to break down in an emergency, but its smooth and successful working in ordinary times depends essentially on the personal relationships of those responsible for its operation, and these depend in the last analysis on the relations between employers and employed which prevail inside the works. It is within the works that the good will and confidence must be generated which, spreading thence to the local representatives of employers and workpeople, eventually permeate their respective national trade organisations. On the other hand, the works may be breeding grounds of the poison of mutual suspicion and class hatred, by which industrial relations may be infected, and which is the prime source of trade disputes and social unrest.

From the point of view of the present inquiry, the recovery and development of the competitive power of British industry, and, to this end, the maintenance of effective and loyal co-operation among the different factors in production, it is of the utmost importance to foster harmonious relations within each industrial undertaking, both as the necessary condition of high productivity, and as the foundation of good relations in the industry as a whole.

In our "Factors in Industrial and Commercial Efficiency"* it was pointed out that in recent times there has been a continuous growth in the scale of industrial undertakings, a growth which has been more or less rapid according to the conditions of particular industries, but which has affected all trades to a greater or less extent. Where the growth has been very rapid, and the average size of the business unit has become large, the former "personal touch" has been weakened or has disappeared altogether, and there has been a growing need to replace it by some new form of relations between the management and the workers. Thus the necessity for some kind of workshop organisation for this purpose follows as a natural consequence from the widening of the gap between the classes engaged in common production, caused by the growth of the scale of business enterprise. The Great War and the abnormal conditions of munitions supply emphasised this need and brought it prominently to the front. For many purposes (e.g., "dilution," and welfare administration) the existence of some representative body within the works was essential, while the realisation by the workmen of the need of some form of workshop organisation gave rise to the Shop Stewards' Movement, and the formation of Shop Committees consisting entirely of workpeople.

It was in this atmosphere and under these conditions that the Whitley Committee in 1917 recommended the general formation of Joint Works Committees as a part of their plan for the "triple organisation in the workshops, the districts and nationally." That Committee laid great stress on the linking up of Works Committees with the district and national trade organisations, and its recommendations for this purpose would in effect involve the definition of the functions of Works Committees by schemes to be drawn up by the Councils.

A large number of Works Committees were formed during or soon after the war, but probably only a minority of them were established under schemes of Joint Industrial Councils, or had any definite relation to such Councils. With the return of peace conditions a large number of the war-time Committees disappeared, and many others for various reasons have also fallen into abeyance. At the present time joint Works Committees only survive in comparatively few undertakings, where there is a very definite desire on the part of both managements and workpeople to make them a success.†

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* See p. 3. † See "Survey of Industrial Relations," p. 305.

If, therefore, as we believe, it is desirable to see some form of Works Committee established as a normal part of the administration of great industrial undertakings, practically a fresh start will have to be made, and, in making it, we think it would be wise not to insist on that part of the scheme of the Whitley Committee which contemplated that these internal Committees should be connected with and dependent on Joint Industrial Councils. Apart from the question whether the theoretic idea of a triple inter-connected organisation may not be too cumbrous for practical purposes, it is manifest that the course of events has made it difficult to realise, inasmuch as Joint Industrial Councils instead of covering the field of industry, as originally contemplated, have only succeeded in establishing themselves as one out of many forms of joint organisation and have not taken root in some of the great exporting trades. Warned by past failures, we think it would be very unwise to attempt to prescribe any uniform plan as regards either the form, constitution, or functions of Works Committees, or their relations with trade organisations. If the movement be really a live one, corresponding to a true economic need, these questions will settle themselves in a variety of ways in accordance with the diverse conditions of different works and industries. In such a matter we would much rather trust to the same process of evolution which has resulted in the present complex and diverse forms of machinery for industrial negotiation, than to any hard and fast scheme laid down either by this Committee or by any other external authority.

Nevertheless, it may be of service to indicate briefly the results of our investigations into the working of twelve successful Works Committees, carefully selected in consultation with the Ministry of Labour as being fairly representative of different types of industry and establishment. Within the selected sample we found a wide variety of form and constitution, from the fully organised joint Works Committee with its secretariat and office, to the Committee consisting solely of workpeople's representatives, with or without an employer as chairman, including a combination of the two methods in the form of a large shop Committee consisting solely of workpeople's representatives meeting by themselves, but electing a smaller number of delegates to constitute the workpeople's side of a joint Works Committee. As a rule no importance was attached to numerical equality, questions being generally settled by agreement between the two sides. In most cases the workpeople's representatives were elected by ballot in the various departments of the works, and sometimes, but not always, membership was confined to trade unionists. Only in one out of the twelve establishments was there any link between the Works Council and a wider trade organisation. In all cases meetings were held at regular intervals, and this regularity was generally considered to be essential to success. The nature of the questions dealt with varied widely; but broadly speaking it

covered the whole range of "industrial welfare" and questions affecting workshop amenities and grievances, without however, trenching, as a rule, on the fixing of wages and hours.

It is plain from the information at our disposal that the most essential conditions of a successful Works Committee are not the perfection of its paper constitution, still less its observance of uniform rules, but the existence of a sufficiently wide field of questions within its competence to provide material for regular meetings, and the presence in the works of persons who are keenly interested in promoting co-operation and good feeling. Perfunctory meetings at irregular intervals, with unattractive agenda and slender practical results, will quickly lead to failure. With equal certainty a Works Committee will fail if the work-people have any ground for suspecting that its object is to weaken their trade organisation.

It is true that in America, where trade unionism is far weaker and less generally recognised by employers than in this country, Works Committees have often been established as an alternative form of labour organisation, sometimes known as the "Company Union." Our evidence* shows that under the conditions obtaining in the United States many of the Works Committees established on this basis have had remarkable success in improving relations and providing a means for the prompt settlement of grievances. They are, however, almost exclusively confined to large businesses, the figures supplied to us showing that, out of 1,369,000 persons participating in such schemes in 1926, about 60 per cent. were in sixteen great establishments each employing over 15,000 persons, and less than 3 per cent. in establishments employing less than 1,000 workpeople. The American Company Unions are not unnaturally disliked by the Trade Unions, and they have not yet stood the test of a general trade depression. In any case, we are convinced that in the circumstances of Great Britain the best chance of success in the establishment of Works Committees is to make it perfectly clear that they are supplementary and not alternative to the ordinary machinery of collective bargaining. It was a sound instinct which led the Whitley Committee to lay stress on this point, even though their recommendations for avoiding the danger of conflict may have erred in over-elaboration.

We have not the means, even if we had the desire, to analyse in similar detail the causes of failure of those Works Committees which have ceased to exist. Admittedly, however, one of the commonest reasons for failure was the want of sufficiently important functions and subjects for consideration. It seems to us that the adoption of some of the recommendations of this report ought to have the effect of diminishing this difficulty.

* See also the Report of the British Delegation, p. 29.

One of the great advantages to be expected from the establishment of Joint Works Committees is the admirable opportunity which they afford to employers of enlisting the interest of the employees in the problems of management and the conditions of success of industrial enterprise. We are strongly of opinion that full advantage ought to be taken of this opportunity, and that it would be a wise policy for the management to take the Works Committee into its confidence to the utmost extent possible, and in particular to furnish it with periodical reviews of the business situation. Nothing is so likely, in our judgment, to foster a better understanding of the problems and difficulties of business enterprise and to evoke a spirit of loyal co-operation in the works. This view was strongly supported by evidence tendered to us.

Lastly we would refer to the proposal which has been made (though not in evidence to us) that the establishment of Works Committees should be made universal by legal compulsion. We do not favour this proposal, believing that the practical benefits to be expected from this form of workshop organisation depend essentially on the maintenance of its voluntary and elastic character, free from the necessity of the exact legal rules and definitions which are the inevitable conditions of statutory enforcement. Moreover we should expect that, whatever rules and conditions were laid down in an Act of Parliament, ways would be found of frustrating the intention while complying with the letter of the law. It is not by such means that a better spirit can be generated in the factory.

The Powers of Joint Industrial Councils.

Proposal for compulsory powers.

When speaking of Trade Boards (on pp. 91–2) mention was made of the demand on the part of certain Joint Industrial Councils for the compulsory enforcement in certain circumstances of their agreements. The proposal put forward was that the Minister of Labour should be empowered, on application from such a Council, to make an Order under which an agreement arrived at by the Council would be compulsorily applicable not only to members of the assenting parties, but also to any outside employers or workpeople carrying on the industry within a district covered by the agreement. This proposal has been strongly advocated in evidence before us as necessary to the growth and stability of Joint Industrial Councils and the effective performance of the functions for which they were created. On the other hand the suggestion has given rise to great divergence of opinion both among the Councils themselves and still more widely among the other organisations of employers and employed, and it has been the subject of repeated discussion at the Trade Union Congress with varying results. The evidence given on the subject by our trade witnesses was fairly evenly divided.

Comments on proposal.

We may say at once that in the form in which the scheme was recommended to us, and in which it was embodied in a Parliamentary Bill,* it appears to us to be open to grave objections on several grounds. Joint Industrial Councils are or may be concerned with a great variety of questions which, as enumerated in the schedule to the Bill, cover nearly the whole range of industrial relations together with certain questions of workshop management. The one important omission from the schedule, whether intentional or not, is any definite reference to the actual fixing of wages and hours. To accept the proposal put forward would involve the risk of fastening compulsorily on certain organised industries methods and principles of industrial relations, and even of business management, to which a minority of employers or workpeople may be strongly opposed. The problem of defining the precise scope, geographically and industrially, of compulsory enforcement is a minor, though in practice a very real difficulty. A much greater difficulty is the reaction which the application of compulsion with regard to principles and methods of industrial relations must have on the working of the voluntary machinery for the actual fixing of wages and hours in the industry. It seems to us that the situation thus created would probably end in the absorption of all the functions of wage-fixing by the Joint Industrial Council, and the extinction of voluntary methods throughout the industry.

But if it be difficult for voluntary and compulsory methods of settling industrial relations to co-exist within the same trade, it will be no less difficult to maintain the voluntary and compulsory principles of wage-fixing side by side in different branches of competitive industry. Many sections of workpeople are organised not on an industrial but on a craft basis, and follow their craft in connection with more than one industry. The voluntary machinery by which the wages of these workpeople are settled would always be liable to come into conflict with the compulsory machinery of the Industrial Councils.

It has further to be remembered that, as already indicated,† Joint Industrial Councils represent only one type, and that not the most firmly established or generally accepted type, of organisation for the collective settlement of industrial questions. In many of the great exporting trades the system has not taken root. In these circumstances it would hardly be possible to give the desired powers to Joint Industrial Councils and to refuse them to the many other forms of joint organisation and negotiating machinery described in our Survey.‡

* Joint Industrial Councils Bill, 1924.

† See p. 121 above.

‡ See "Survey of Industrial Relations," pp. 45–49 and 265–280.

If these powers were universally at the disposal of joint organisations of employers and employed, some of the difficulties of delimitation would be lessened, but other difficulties of a very grave character would arise. Compulsory enforcement of agreements dealing with so wide a range of questions must presumably be bilateral, and the workpeople and their Trade Unions might find themselves exposed to civil action or criminal prosecution for failure to fulfil an agreement which had received compulsory force. We do not think that they would accept such liability, and even if some of them were willing to do so, we should dread the results on industrial relations of substituting cast-iron legally drafted documents for the present less formal and more elastic agreements and understandings, which, if they have only a moral validity, are, generally speaking, loyally observed.

The force of these criticisms is somewhat, but not in our judgment very greatly, attenuated by the proposed option to be enjoyed by an Industrial Council to refrain from applying for the compulsory enforcement of any particular agreement, or by the right of the Minister of Labour to refuse confirmation. For if the power were once conferred by law, there would probably be great pressure for its exercise from one side or the other on the Councils, while the pressure from both sides on the Minister to confirm an agreement submitted to him would be very difficult to resist.

Limited powers of compulsion.

We feel, however, that there is one exceptional case in which most of the foregoing objections would cease to apply, and that is if the scope of the compulsory powers were strictly limited to the fixing of minimum rates of wages for the lowest paid grade of persons employed in the industry, in cases where such rates are 'exceptionally low' within the meaning of the Trade Boards Act, 1909. The enforcement of such minimum wages would involve no liability to legal proceedings against trade unions, and no substantial threat to the present voluntary machinery for negotiation in the industry. On the other hand, the grant to a Joint Industrial Council of certain powers in respect of any "sweated" branch of trade within its scope might sometimes offer a more convenient and elastic method of dealing with such a branch, than by taking it out of the jurisdiction of the Industrial Council and subjecting it to a compulsory Trade Board. In our view, the peculiar organisation of the Trade Board with its nominated personnel and the presence of independent "appointed" members is only appropriate to those exceptional branches of industry which combine absence or weakness of organisation with relatively low rates of wages, and we should strongly deprecate the encroachment of this type of institution on the field of normal organised industry. The alternative course of clothing Joint Industrial Councils with analogous powers (limited,

however, to the fixing of basic minimum rates of wages in the sense explained above) seems to us greatly to be preferred to any wide extension of Trade Boards.

If, however, this suggestion were adopted we think that it would suffice to enforce the rates so fixed by civil action, following the precedent of the enforcement of minimum wages in Coal-mining rather than that of the Trade Boards Acts, which, it must be remembered, are concerned with exceptionally helpless and unorganised industries in which a civil right of action would often be of little efficacy.

We fully realise that the above suggestion is by no means free from difficulties both of principle and practice. For example, a Joint Industrial Council might possibly contain few or no representatives of the low-paid branch, and, in the absence of independent members, might be disposed to give scant consideration to its special conditions and difficulties. In these circumstances stringent precautions would be necessary to ensure that those directly interested should have full opportunity of being heard before decisions affecting them were arrived at by the Council, as well as at a later stage, when the matter was under the consideration of the Minister of Labour.

We are disposed to think that any such powers as we suggest should for the present be limited to joint bodies recognised by the Ministry of Labour as Joint Industrial Councils. Of course, it would rest with any particular Council to determine whether or not it desired to avail itself of the powers, and in the last resort there would always remain the possibility of establishing a Trade Board.

National Industrial Council.

Proposal for establishment.

A certain amount of evidence has been submitted to us in favour of the establishment of a National Industrial Council representative of organisations of employers and workpeople in all industries, in addition to the various forms of joint organisations which deal with the problems of particular industries or establishments. This proposal follows the recommendation of the National Industrial Conference convened by the Government in 1919, immediately after the war. That conference suggested that the proposed National Industrial Council should "consider and advise the Government on national industrial questions," that it should consist of 400 members elected by employers' organisations and trade unions in equal number, with a standing committee of 50 members similarly elected by and from each side. Quite recently the Conference on Industrial Reorganisation and Industrial Relations has put forward a proposal for a National Industrial Council constituted on somewhat different lines.

It may be added that several important industrial countries, e.g., France, Germany, Italy, Belgium and Holland have made experiments of varying kinds and with varying success in the establishment of National Industrial or Economic Councils.* There is, however, nothing in the experience of these countries, so far as known to us, which sheds light on the problem before us.

Such information as we have been able to obtain does not indicate that the demand for such a Council is widespread or urgent, nor do its advocates appear to have clear ideas in common as to the precise objects of the Council or the benefits to be expected therefrom. It is evident, however, that without a definite policy, previously thought out and widely accepted, it would be both futile and dangerous to establish a piece of new machinery for dealing with general industrial relations, which might give rise to great hopes and expectations and eventually to disillusion and disappointment. Before giving our conclusions on this proposal, therefore, it seems necessary to disentangle two quite different underlying ideas which seem to us to be in the minds of two sets of advocates.

(i) A certain number of supporters of the proposal for a National Industrial Council undoubtedly look to it as a step towards an Industrial Parliament which shall be clothed with powers to legislate for industry. To such supporters the suggestion that a purely consultative council would find no sufficient field of operations without overlapping those of other trade organisations, and that it would, therefore, be driven, as an alternative to inanition, to seek for quasi-legislative or executive powers, is of course a recommendation rather than an objection.

We feel, however, that a proposal to establish, either immediately or by gradual stages, a national organisation for industrial legislation, exercising co-ordinate or delegated powers side by side with Parliament, is one involving considerations of high policy going to the root of British constitutional law and practice, and is not a matter which we could consider within our terms of reference.

If ever on general political grounds a decision were taken to set up such an organisation, the greatest care would have to be taken to define its precise constitution, powers and mode of election, as well as its relation both to Parliament on the one hand and to bodies dealing with the separate trades on the other. But it is obvious that the answers to be given to all these questions would depend on the prior solution of fundamental political and social problems which lie far outside our province.

(ii) We therefore feel constrained to consider the proposal for a National Industrial Council purely as a form of machinery for dealing on a consultative basis with certain classes of existing industrial problems, disregarding any ultimate possibilities of transformation such as that indicated above.

* See "Survey of Industrial Relations," pp. 306–313.

Comments on proposal.

It is impossible to exaggerate the value of a better atmosphere in industrial relations, which might proceed from intimate and frank discussions between the representatives of employers and workpeople who are earnestly desirous of co-operation and a peaceful solution of industrial difficulties. Even if the positive results achieved were slight, the indirect effects of bringing together representatives of the different industries, both employers and employed, to discuss industrial problems of common interest from the angle of their different trade conditions are bound to be highly beneficial, as bringing home to those concerned in different trades the fundamental fact of their mutual economic interdependence. Not only must such meetings conduce to the broadening of the general outlook and to the breaking down of barriers of misunderstanding and prejudice between different industries and classes, but the purely educational effect of the personal contacts thus established must count for very much in improving industrial relations.

On these grounds we should cordially welcome the creation of a suitable organism to facilitate such national discussions, provided it were formed spontaneously in response to a general desire, and its functions defined by a complete and mutual agreement between the accredited representatives of employers and employed.

While we are convinced that this view is sound, all experience proves that an essential pre-requisite to the realisation of the indirect benefits referred to above is that any organisation set up should be charged with a substantial and useful programme of positive activities. To erect an organisation with a vague or inadequate reference in the hope that indirect advantages will arise from the creation of a sympathetic "atmosphere" is to defeat the whole object and to court certain failure.

As previously indicated*, it seems doubtful if the various trade organisations, whether joint or separate, which represent the industries of the country would be willing to delegate to a National Industrial Council the settlement, or even an advisory voice in the settlement, of the conditions of employment or other matters of domestic interest to individual industries. Apart from these problems there remains, of course, a wide range of questions affecting industry in general, some of which might be referred to the Council for advice by the Government of the day or by one or other of the trades, or which might without any reference be considered by the Council on its own initiative.

In many cases, however, industrial questions referred by the Government would be found in practice to demand special trade knowledge and experience not possessed by the actual members of the Council, and in our opinion it would be most inadvisable that the

* Page 94 above.

executive Departments of Government should forego the practice of direct consultation with trade associations, and accept in lieu thereof the opinion of a National Council, however representative its constitution may be.

There remains the possibility that one or more trades might voluntarily refer to a National Council certain questions of general interest, affecting more than one industry, e.g., demarcation, apprenticeship and recruitment, industrial training, etc. etc. It is true that the trade witnesses who have given evidence before us have shown little indication of an active desire of this kind, but have rather emphasised, perhaps unduly, the special conditions of their trades, which, in their opinion, are difficult or impossible for outsiders to appreciate. A central council, however, might provide facilities for examining special problems in consultation with the industries affected or otherwise, while in the case of any serious industrial emergency, the existence of a National Council or Conference, widely representative of the two partners in industry, might prove of great public value.

Reviewing the contemplated field of usefulness and all the circumstances, we are doubtful if there is sufficient ground for the immediate creation of a National Industrial Council with a definite organisation and staff and regular meetings.

Annual Conference.

We do not think, however, that the same doubts would apply to the convening of a National Conference representing the organisations of employers and employed, to meet, say, annually, perhaps under the presidency of the Minister of Labour. The main objects of such a conference would be the communication of information, the mutual exchange of views, the ventilation of grievances and the criticism of policy, and possibly the appointment of *ad hoc* special committees to investigate more closely than would be possible at the full meeting particular problems of importance.

It might well be that formal conclusions and recommendations would form no part of the plan, but the proceedings of the conference would be printed and widely circulated. The secretariat and the preliminary staff work in connection with these annual Conferences could, if necessary, be performed by the Ministry of Labour, or by some other existing body or bodies.

On the whole we are disposed to think that a National Industrial Conference on these lines would accomplish most of the valuable results that could fairly be expected, without incurring the risk of failure and disappointment through an endeavour at the outset to achieve too much. An alternative suggestion which has been made is that the Ministry of Labour should establish an Advisory Committee representing the organisations of employers and employed.

(4) Irregularity of Employment.

Insurance against Unemployment.

General considerations.

"To ensure sufficient and continuous employment and a satisfactory standard of living" is indicated in the Memorandum accompanying our Terms of Reference as the main goal of our inquiry—the ultimate object for which we are to seek the means to ensure the fullest participation of British trade in the markets of the world and the improvement of the productive capacity and efficiency of British industry. For the purpose of our inquiry, therefore, the problems of employment and unemployment are but the problems of production and trade viewed from a different angle. To us it is axiomatic that the volume of employment in industry must depend on the volume of marketable products which industry can produce and trade can sell. The present section of the Report will therefore be a comparatively short one—not because its subject matter is lacking in importance, but because it runs like a thread through all the remaining sections.

We are here mainly concerned with such special aspects of the phenomenon of unemployment as have a direct bearing on competitive power and industrial costs, and especially with the effects of steps taken to mitigate the hardship of unemployment, rather than with the general problem of increasing employment by expanding production and trade, which forms the underlying object of our whole Report.

It appears from our "Survey of Industrial Relations", together with the later information which has since become available, that during the past eight years the recorded number of unemployed persons in Great Britain has never fallen below 1,000,000 except during one short period, while on occasions it has exceeded 2,000,000. Of course, the individuals out of work are constantly changing, and examination shows conclusively that only a small proportion of them are unemployed continuously for a long period. Still, the available data suggest that the average load of unemployment exceeds that which the country had to carry before the war, except on rare occasions and then only for short periods. This being so, the long-continued high rate of unemployment is a phenomenon of a new and exceptional character which gives rise to many problems both economic and social.*

* A million persons represents roughly about 8½ per cent. unemployed. So far as the imperfect pre-war records give any indication, they seem to suggest that in the ten years immediately preceding the War the average percentage of unemployed varied from rather less than 3 in the best year up to about 8 in the worst year of the decade, but the comparison is subject to many qualifications.

It should be observed at the outset that, as the "provision of sufficient and continuous employment" is linked in the Memorandum above quoted with the maintenance of "a satisfactory standard of living," so in all official statistics and practical schemes for abating unemployment or mitigating the severity of its effects the phenomenon of want of work is invariably regarded not from an absolute point of view, but in relation to the customary standard of life. Thus the recorded number of insured persons unemployed does not represent the number of persons unable to find any kind of remunerative work, but the number unable to find work more or less of the kind to which they have been accustomed, at rates of pay not substantially reduced. To justify the denial of unemployment benefit to an insured person on the ground that he has refused employment, it is necessary that the employment so refused should be "suitable"; and, without entering into the definition of this term resulting from the provisions of the Unemployment Insurance Acts and the decisions of the Umpire thereunder, it may be said broadly that the question of "suitability" is in the main determined by reference to the man's habitual employment, earnings and place of residence. There are a number of qualifications to the broad statement made above, but they do not affect its general validity.

"We are far from criticising the Unemployment Insurance scheme on this ground. On the contrary we are convinced that no scheme of compulsory insurance against unemployment would be acceptable or workable, if framed on any other basis. But when the total number of insured persons registered as unemployed in Great Britain is contrasted with the supposed smaller numbers in other countries, it is pertinent, not only to bear in mind the above considerations, but also to remember that no other country has a universal system which gives rise to statistics on anything like so complete and definite a basis.

Effect on Mobility.

We regard the establishment of a practically universal system of compulsory insurance against unemployment as one of the greatest advances in social amelioration made during the past generation, and we further hold that, as already indicated, any such system should interfere as little as possible with existing standards and ways of life. Nevertheless, it is evident that the working of such a scheme needs to be very carefully safeguarded lest it should have incidental effects of an adverse nature on industrial mobility.

That the provision of unemployment benefit should to some extent lessen the incentive to migration and to industrial redistribution is perhaps inevitable*. It is, however, possible by wise regulations and procedure to reduce this danger to a minimum, and in view of the

* See pp. 238–9 below.

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outstanding importance of preserving and increasing mobility in the widest sense of the term we are of opinion that no efforts for this purpose should be spared. One of the governing considerations that should always be present to the minds of those who frame and administer the provisions of such a scheme is the necessity of avoiding any tendency to stereotype the existing distribution, whether geographical or industrial, of the working population, or to check the natural flow from industries and districts in which demand is diminished towards those in which it is more active.

We do not propose to give here a detailed account of the existing law relating to Unemployment Insurance in Great Britain. A brief summary of the successive Acts from 1920 to 1925 was included in our "Survey of Industrial Relations."* Since the issue of that volume the whole system has been the subject of comprehensive inquiry by a Committee presided over by Lord Blanesburgh which made a unanimous report in 1927. Legislation was enacted in 1927 based generally on the recommendations of that Committee, though departing therefrom in some material particulars, of which the most important was the proportion to be borne by Treasury grant to the total contributions.

Had the Blanesburgh Committee not been appointed, we should have thought it necessary to make special inquiry as to the working of Unemployment Insurance and especially with regard to its possible effects in checking the mobility of labour from trade to trade or from place to place, or in diminishing the incentive to seek and to keep employment. In view of the inquiries of the Blanesburgh Committee we abstained from seeking evidence on these points, and the recent Act presumably embodied all the precautions against the above dangers which in the existing circumstances were deemed practicable. The main object of that Act was to bring to an end the system of "uncovenanted" or "extended" benefit†, sometimes popularly known as the "dole", which had been introduced since the war, but incidentally the rates of benefit for single men and young persons were subjected to slight reductions balanced by increased allowances for the dependants of married men. Perhaps more important than the alteration of rates of benefit was the provision that, after drawing unemployment benefit for a certain period, a person may be refused further benefit, if he declines an offer of employment in an occupation other than his own. Both these provisions, and especially the last-mentioned, tend *pro tanto* to reduce the danger that Unemployment Insurance may impair mobility, but only time can show whether the precautions taken are adequate for the purpose.

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* See pp. 228–30.

† i.e., discretionary allowances over and above those which could be claimed in respect of contributions paid.

General beneficial effect.

On the broad question of the merits and value of the Unemployment Insurance scheme as a whole, both from the point of view of general social welfare and also from that of industrial and commercial efficiency, our opinion is that the scheme has amply justified its establishment. In normal times it provides a much needed method of enabling a worker to safeguard himself against the worst evils of industrial fluctuations. For the individual to provide such a safeguard by means of his own thrift is of course impossible in view of the incalculable character of the risks to which industry is exposed. Nor do we think that any basis of insurance is really satisfactory, short of one which covers the whole field of industry, or at least the principal industrial groups, inasmuch as any narrower scheme would effectively check mobility as between insured and uninsured occupations. That workpeople should by some method of insurance be safeguarded against the worst risks of involuntary unemployment is in our opinion a very great advantage, not only to themselves, but to the trades which they follow. For nothing is so detrimental to industrial capacity and morale as long continued idleness without sufficient means of sustenance. It was shewn in our "Factors in Industrial and Commercial Efficiency"* that the employers' contributions to the Unemployment Fund represent a negligible addition (averaging much less than 1 per cent.) to the total costs of production, and we are satisfied that on the whole the resulting advantage to them has very greatly exceeded any burden of this kind.

We have been speaking above of the results of the scheme in normal times. As a matter of fact it was operative for less than four years under normal conditions, and then only over a limited area of industry. Since the return of the armies from abroad after the war, the machinery originally established to meet the normal risks of industrial fluctuations has perforce been used for objects outside its original scope, first as the organ for distributing the government grants made to soldiers on demobilisation and to displaced munition and other workers pending their re-absorption into industry†, and afterwards to meet the unprecedented shock resulting from the catastrophic decline in employment, by the institution of the so-called "uncovenanted" benefit. The Act of 1927 marks, we trust, the definite return to insurance principles properly so-called. But looking back at the abnormal and unexpected functions which the staff and machinery of the Employment Exchanges and Unemployment Insurance Offices were suddenly called upon to

* See p. 61.

† The organ for distributing the government grants was of course, technically speaking, the Employment Exchange, and not the Unemployment Insurance Office; but, as insurance is mainly administered through the Exchanges, anything which disorganises the one affects the other.

perform at a critical period of the nation's life, and having regard to the terrible possibilities of suffering and even of social upheaval from which these operations probably saved the country, we feel little disposed for meticulous criticism, but rather desire to accord our unstinted praise for the fine work accomplished by the staff of the Ministry of Labour under such difficult conditions.

How the country would have fared had not the insurance machinery been available in its time of need, we find it difficult to imagine. Throughout the last few years, it has been a matter of constant comment that so deep and prolonged a trade depression has produced so little actual suffering in comparison with the experience of far slighter and more transient periods of depression before the war. There has been practically no decline in the consumption of the essential necessaries of life in spite of the fact that a million or more workers have been earning no wages at their trades. For this happy result, a large part of the responsibility undoubtedly rests with the Unemployment Insurance scheme.

Effect on the will to work.

Has the task been performed too well? Has the removal of so much of the terror of unemployment relaxed the will to work? It is often lightly asserted that this has been the case, and the experience of the United States, where no such system is in existence, is frequently cited in favour of the view that Great Britain has artificially increased the burden of unemployment by the measures taken to diminish its hardships. We have examined this contention with great care in the light of the results of the four sample inquiries made by the Ministry of Labour into the personal circumstances of individuals insured against unemployment, and also in the light of such information as is in our possession with regard to industrial unemployment in the United States.

The latest sample inquiry of the Ministry of Labour shewed that the proportion of the unemployed who might be considered as "verging on the unemployable" was extremely small, being only about 2 per cent. of the total, and including a majority of elderly persons, and that the nucleus of individuals who had remained on benefit for long periods was only 6 per cent. of the whole number.

The absence of any firm basis of insurance statistics in the United States makes the figures very difficult to compare with those of Great Britain, but, so far as any conclusion can be safely deduced from the very partial data available, it would seem to be that the volume of industrial employment in the United States has of late years fluctuated more violently and rapidly than in Great Britain, and also that the average percentage of unemployed persons in American industry has been at least as high as in this country. In 1921, the year of deepest depression in the United States since the war, the number of persons unemployed in the manufacturing,

mining and railway industries was estimated by a committee of the President's Conference on Unemployment as about 3,500,000*; and we have satisfied ourselves that this estimate was carefully made by competent statistical authorities on the basis of the best data available. The National Industrial Conference Board, accepting this figure, further estimated that the average number unemployed at any time in the manufacturing industries of the United States is about 1,750,000. These figures are supported by the estimate of the Commissioner for Labour Statistics, who stated in 1924 that in any year there would ordinarily be unemployed to the extent of 1,500,000 to 1,750,000 among industrial workers engaged in manufacturing industries not including those unemployed for short periods or through sickness, accidents, etc.* This last estimate, if accepted, would indicate that the percentage of unemployed in American manufacturing industry averages from 12 to 15 per cent. —a percentage higher than the average for British manufacturing industry during the post-war period. It is possible that the United States official estimate may have given somewhat undue weight to the experience of certain States in which unemployment has been most prevalent and most fully recorded; but after making allowance for exaggeration due to this cause our inquiries lead us to believe that the average proportion of unemployment in American manufacturing industry if not higher is not appreciably lower than that which obtains in Great Britain, while in a "peak" year of depression, such as 1921, the load was certainly greater than in this country†. No doubt the higher margin between earnings and necessary consumption, and generally the more buoyant conditions of American industry, enable the burden of this mass of unemployment to be carried more easily than the corresponding burden in this country. The very fluidity and instability of American employment as manifested, for example, in the extraordinarily high rate of "labour turnover" is a symptom of the same difference of temperament between the industrial population of the two countries, which makes the American workman more ready than the British to face the risks of employment. Moreover, in the United States as well as in France and Germany, there is an interplay between industry and agriculture which is almost unknown in Great Britain, and undoubtedly helps to mitigate the results of industrial depression.

It cannot be said that the figures of industrial unemployment in the United States give any support for the view that the mass of unemployment in this country is to any material degree the result of the measures taken for mitigating the resulting hardships and could be appreciably reduced by discontinuing those measures.

* Report of British Delegation, p. 84.

† In arriving at these conclusions we have taken no account of the various figures published officially and unofficially in the United States during the course of 1928 with regard to the volume of unemployment, owing to the wide divergence among the estimates and the difficulty of reconciling them with those made for previous years.

Provision of Work for the Unemployed.

It is sometimes suggested, and it has been represented to us in evidence, that the true remedy for the evils of unemployment is the provision of work for wages rather than the support of men in idleness by the provision of unemployment benefit. If by this is meant that the best and indeed the only real cure for unemployment is the expansion of production and trade we are cordially in agreement. But if reference is made to schemes for the artificial creation of work in order to provide employment we are not disposed to admit the proposition without very considerable qualifications. We do not doubt that the exercise of care and foresight on the part of public authorities in arranging beforehand, and if possible over a fairly long period, their programme of necessary public work may sometimes enable them to postpone until a time of depression work which in the ordinary course might have been undertaken in a period of active trade. Alternatively (though within much narrower limits) they may in times of depression be able to accelerate work which would eventually be necessary, but which otherwise would have been deferred. Subject to the qualifications mentioned below, some contribution may be made by such methods towards diminishing the violence of trade oscillations; and where such possibilities exist and the inconvenience and extra cost of retardation or acceleration are not excessive, the arguments are all in favour of such a policy. Nevertheless, it would be wrong to expect too great results from action of this kind. A large part of the public work which is susceptible of postponement or acceleration is work of special kinds which could not provide employment in their own trades for any considerable number of unemployed persons. Moreover, the experience of the post-war depression, when considerable inducement was held out by the Government year after year to local authorities and others to expedite necessary work in order to provide immediate employment, shows that in a long continued depression the possibilities of bona fide anticipation become rapidly exhausted.* In these circumstances employment so provided may tend to lose its economic character and to become hardly distinguishable from ordinary relief work.

An interesting proposal for utilising the machinery and funds of the Unemployment Insurance Scheme so as to encourage employers to employ an increased number of workers was submitted to us in evidence by Sir Alfred Mond (now Lord Melchett). The underlying object of the proposal commands our sympathy, but after the most careful consideration we have come to the conclusion that the project is unsound, and that we could not recommend its adoption. Very briefly the suggestion was that, subject to certain conditions and safeguards, an employer who engaged additional workpeople should be entitled to receive the unemployment benefit due to

* See "Factors in Industrial and Commercial Efficiency," pp. 394–7.

75 per cent. of such workpeople. The argument in favour of the proposal was that it was more advantageous for all concerned that the men should be employed on real work at standard wages than that they should draw unemployment benefit in idleness. The reasoning is superficially attractive, but, apart from the difficulty that the Unemployment Fund has been subscribed for specific purposes, of which this is not one, we do not think it would be possible to administer the scheme in such a way that firms benefiting under it would not compete unfairly with those working in the normal way. In our judgment any subsidy of this kind would tend to perpetuate artificial conditions in industry and to postpone a return to normal employment.

Schemes of relief work pure and simple, together with work exacted in connection with the legal relief of destitution under the Poor Law, fall in our opinion outside our province. Work offered to applicants in connection with such relief is usually rather of the nature of a test of bona fides than true economic employment in the sense in which we use the term, while the payments made on condition of the performance of such work are not economic wages, but allowances based on need. The problems of the Poor Law are so different in character from those of industrial recuperation and development that they could not usefully be dealt with as part of the present inquiry, nor have we in fact received any evidence on the subject, except as to the injury inflicted on industry by excessive local rates. The only point which on the information before us we feel justified in emphasising, is the imperative need of adequate administrative co-ordination to prevent overlapping and duplication between the provision for the relief of destitution and the provision of unemployment insurance benefit.* Without such co-ordination it is plainly impossible by any action on the part of the authority administering Unemployment Insurance to ensure that the aggregate of any income which can be drawn from benefit and relief shall not equal or even exceed the wages which the insured person could earn at his ordinary occupation.

Under-employment and Casual Labour.

Systematic short time.

The shrinkage of employment due to contraction of output does not necessarily take the form of the total discharge of a certain number of workers. To some extent, and in certain industries to a predominant extent, fluctuations in the demand for labour are met by various methods of spreading the work available over the whole body of workers. This may be done systematically, as, for example, in the collective short-time arrangements familiar in the cotton-spinning trade, or casually, as in such occupations as port and dock labour.

* See also p. 256 below

Where the short-time arrangements are the result of collective trade action, it may be presumed that the necessary precautions are taken to minimise the hardship caused by under-employment, and the only question relevant to the subject of our present inquiry to which such arrangements give rise is whether they may not tend in some circumstances to check industrial mobility and to keep an excessive number of workers attached to an industry which may have little or no prospect of being able to afford them full employment. Generally speaking, it may be said that short time is an expedient better suited to tide over the effects of a transitory depression, such as that which occurs in the ordinary course of a trade cycle, than to meet the case of an industry which is undergoing a fundamental transformation.

Whereas the under-employment caused by systematic short time is definitely measurable and equal in its incidence, and its social effects are limited to an all-round reduction of earning power, the under-employment consequential on casual engagement is irregular in its incidence, and gives rise to such serious economic and social evils that it requires special examination.

Casual employment.

The position of casual and chronically under-employed labour, especially in the case of port workers, presents a social and economic problem of the greatest gravity quite different from that of the " sweated " industries which preoccupied social observers before the enactment of the Trade Boards Acts, but certainly not less important in relation to the subject matter of our present inquiry. Though this is far more than a wages question, the mal-adjustment which gives rise to the evils of casual employment has very important repercussions on rates of wages and consequently on the burden imposed on overseas trade by the cost of the transport services. As this is the point of view to which, under our terms of reference, we necessarily attach prime importance, it seems expedient to deal with the problem of casual employment so far as it affects industrial costs at this stage of the Report. In so doing we would not be thought to under-rate the purely social side of the mischief, for we regard casual and intermittent employment, where it is not a mere transient incident of trade depression but the normal system under which an industry is carried on, as a prolific source of misery and degradation, which it would be a disgrace to our civilisation to tolerate without making every effort to find a cure.

The causes of the prevalence of casual employment in docks and ports have been analysed in our " Survey of Industrial Relations."* Broadly speaking, they are (*a*) the intermittent character of the demand (weather, season, and non-arrival of ships), (*b*) the fear on

* See pp. 23 and 166–171. See also pp. 66 and 149 of this Report.

the part of the employers that they may be handicapped by an insufficient labour supply at times of exceptional pressure, (*c*) the ease with which workers from other industries have been able to gravitate to the docks and find employment there, and (*d*) the fact that part-time employment suits the habits of some of the lower-grade labourers. These causes acting together have in the past produced a permanent surplus of labourers following dock employment as compared with the normal demand for their services, the result being that on an average they only obtain three or four days' work a week.* As a considerable section of the dock labourers at a port like London are in regular employment it follows that the average employment which the remainder can expect must be less than half-time.

The evil results of casual employment at the ports have long been notorious, though the effect of the system in increasing transport costs is still very imperfectly appreciated. It is true that since dock labourers have been included under the Unemployment Insurance scheme, the half-employed labourer has been able to draw a supplementary income from this source ; but this recourse, though greatly mitigating the distress formerly caused to the individual labourer and his family from the paucity and uncertainty of his employment, has, *ipso facto*, weakened his motive to press for the decasualisation of the industry.

Thus a vicious circle has been established, based on time rates of wages fixed at a level which will enable a man employed for four days a week to earn a subsistence wage, and which, therefore, yield an abnormally high wage as compared with other industries to those fortunate individuals who are able to obtain nearly full-time employment, while barely yielding a subsistence wage for the larger number who obtain less than half-time employment.

The result of the system is the exact reverse of that which it is our aim to secure, viz., the minimising of labour cost while maximising weekly earnings. For casual labour always tends to be relatively inefficient, and this inefficiency combined with the high rates of hourly pay tends to inflate the labour cost of loading and unloading vessels to a point which imposes an appreciable burden on overseas trade. On the other hand a large section of the men obtain so few days' work a week and their earnings are so fluctuating that their standard of living cannot to say the least be regarded as "satisfactory," even if in such circumstances a stable standard of living can be said to exist at all. It would, therefore, be a great gain if port work could be so regularised as to afford permanent employment, even if the weekly wage should, if calculated by the hour, fall short of the hourly rates now paid to casuals. Unfortunately any such change of system would be unwelcome to two influential classes of labourers. At one end of the scale are those

* "Survey of Industrial Relations," p. 23.

who already obtain all the employment they desire at the high "casual" rates, and who, therefore, prefer present conditions to a regular full week's work, yielding a weekly income which may be no higher and might even be lower than what they already earn. At the other end of the scale is the fringe of casuals who only secure one, two or three days' work a week, and who are haunted by the fear that they may lose even this means of subsistence under a scheme for regularising port employment, which would necessarily involve a reduction in the number of persons following the industry. Moreover, the old and deeply rooted fear of the shipowners and other employers of port labour of being caught in an emergency with an insufficient labour supply and thus exposed to the serious cost of delay and demurrage, has by no means entirely disappeared, in spite of the fact that the causes of irregular arrival of ships have been steadily diminishing with the supersession of sailing vessels and the improved organisation of the liner companies.

Means of decasualisation.

It is the more satisfactory to be able to record that, in spite of these serious obstacles, a special joint committee representing the organisations of port labourers and their employers, with an independent chairman, has been sitting for some years past with the object of promoting decasualisation.* Impressed with the crucial importance of this problem we have watched with great interest and sympathy the proceedings of this committee, which represents an important effort by the industry itself to purge itself of the abuses arising from the system on which for generations it has been carried on. The joint committee soon discovered that the first and most essential condition of progress was to establish some system of local registration of port labourers in order to reduce gradually the number on the register by excluding those who do not follow the occupation as their main means of subsistence, and in order to confine port employment, except in case of emergency, to registered men. This operation has been a slow one, but the reduction of the number of "tallies" in London to 40,000 in 1927 as compared with 61,000 in 1919 (when registration in London was first begun) shews what can be accomplished by steady perseverance. As the average number of dock labourers employed in London both in 1919 and in 1927 may be estimated at between 30,000 and 34,000, it is evident that a great advance has been made towards securing a greater average number of days' work per week for those following the occupation. Meanwhile in some of the other ports there has also been considerable progress, and it may reasonably be hoped that the practice of registration will eventually become fairly general.

* This joint committee was set up in pursuance of the terms of settlement of a labour dispute in 1924. Sir Donald Maclean was appointed Chairman by the Minister of Labour.

So long, however, as the system of casual engagements at a large number of "calling-on places" continues to prevail no final solution of the problem is possible. The practical obstacles to centralised engagement and a regular service of mobile and interchangeable labour are many and serious, but we are sanguine that much can be gradually effected by steady and continued pressure from an organ which represents the industry itself, and whose members are men thoroughly alive to the realities of the problem. If, as is possible, they should eventually find that the voluntary efforts of the industry itself, with the support and guidance of the Ministry of Labour, are not sufficient to reach a solution, we think that serious examination should be given to the possibility of reinforcing those efforts by some form of public action. It would need careful consideration whether any such action, if it became necessary, should take the form of giving compulsory force to voluntary agreements or of encouraging regularity of employment at the ports through some form of special scheme under the Unemployment Insurance Acts. At the present stage it is premature to go into detail, but we wish to make it clear that, in our judgment, we are here in the presence of a clear case of deep-seated economic disease, the cure of which needs strenuous effort on the part both of the industry and of the community.

Industrial Cycles.

One of the main causes of recurrent unemployment is the series of periodic wave movements or "Cycles" of productive activity which, as stated in our "Further Factors in Industrial and Commercial Efficiency," "have been so marked a feature of the industrial, commercial and financial history of this country in common with all the principal commercial countries of the world during the past century."* The character, causes and effects of these trade cycles were analysed in that volume, and it is unnecessary here to do more than to recall and confirm the conclusions to which the analysis pointed so far as concerns practicable remedial action. On the subject of the "psychological factor" which plays so important a part in industrial fluctuations we stated that "the only real remedy for the irrational aberrations of judgment which are the root of the psychological factor in trade cycles is the provision of more complete and accurate information and the cultivation by the business community of the habit of systematic use of such data in arriving at practical decisions." This conclusion has a clear bearing on proposals for the "more extended compilation and publication of the fundamental statistical data necessary for a right understanding of the trend of productive activity" which we discuss in another section of this Report.† The bearing of financial and monetary policy on trade fluctuations was also examined in the volume referred to above, and the matter has been further discussed in the section of the present Report which deals with the restoration of the gold standard.‡

* See p. 257. † See p. 234 below. ‡ See above, pp. 54 et seq.

(5) Industrial Welfare and Psychology.

Statutory Welfare.

As stated in our " Survey of Industrial Relations " it has become customary in this country to apply the term " Welfare " to a group of miscellaneous activities which aim at promoting the physical, social or moral benefit of employees apart from the settlement of such major questions as rates of wages, hours of labour or general conditions of employment. The term is loosely applied, and some confusion has been caused by attempting comparisons between this country and others, e.g., in respect of " welfare " expenditure by employers, without realising that in many countries, including the United States, the expression has been used to cover provision for a large range of benefits which British workpeople enjoy by statutory enactment under the Factories, Insurance, Workmen's Compensation, Pensions, and other codes of law.

Of all the provisions of law or statutory orders in Great Britain dealing with what are sometimes termed the "social services," the only ones to which the term " welfare " has been officially applied are the " Welfare Orders " made by the Home Office in pursuance of an Act of 1916,* and the Miners' Welfare Fund created by the Mining Industry Act, 1920. A detailed account of these forms of " statutory welfare " will be found in our " Survey of Industrial Relations,"† and we do not desire to comment on them in this Report, beyond saying that Welfare Orders apply only to a few specific trades, and deal mainly with arrangements for preparing or heating or taking meals, the supply of drinking water, protective clothing, ambulance and " first aid " arrangements, facilities for sitting in work rooms, washing, clothing accommodation, and rest rooms. We observe, however, with interest that the Factory and Workshop Bill which for some years past has been before Parliament proposes to generalise the results of the experience gained in administering several of the Welfare Orders already issued, and to apply their provisions more widely. Without expressing any opinion on the highly technical questions of detail which arise in connection with some of the matters dealt with in these Orders, we desire to express our approval of the general mode of procedure which the Home Office are pursuing, i.e., to begin with more or less experimental Orders applicable to particular trades where special provision is most urgently needed, to observe closely the results of the limited experiment, and eventually on the basis of the experience thus gained, and in close co-operation with the representatives of employers and employed in the industries themselves, to build up gradually a more generalised code of requirements applicable to a wider range of undertakings.

* Police, Factories, etc., (Miscellaneous Provisions) Act, 1916, S. 7.

† See pp. 180–8 and 196–7.

Though as we have said the term " welfare " in connection with the administration of the Factory Acts is usually confined to the " Welfare Orders " which only date from the war and post-war period, it must never be forgotten that a large part not only of the Factory Acts but also of the Acts relating to mines, railways and merchant shipping, to say nothing of the laws relating to social insurance, consist of provisions regarding employees' welfare in the widest sense of the term. If we make no more than this passing reference to all these measures it is because we have no specific conclusion to record, beyond expressing our appreciation of the value both social and economic of these codes of protective legislation, in which Great Britain stands easily first among its commercial competitors, and from which its industrial population have derived great benefits, without any diminution, probably with an increase, of the competitive power of British trade. Such statutory provisions represent, of course, only the minimum standard, which is frequently exceeded by voluntary action on the part of employers.

Voluntary Welfare.

Extent.

Passing from statutory to voluntary " welfare " schemes established in connection with individual undertakings, we note that such schemes may be divided broadly into two categories providing for what are sometimes termed " inside " and " outside " welfare respectively. " Inside " welfare equipment includes such matters as canteen, mess, cloak, rest and recreation rooms, baths, etc., while " outside " welfare schemes may comprise a large number of miscellaneous provisions, e.g., for education, sports, amusements, medical attention, and thrift and provident schemes of various kinds. There can of course be no difference of opinion as to the value and importance of " inside " welfare, not only from the point of view of social well-being but also from that of industrial efficiency and economy. The only possible question that may arise is as to the best method of organisation to attain the desired end.

Opinion is not so unanimous as to the scope and limits of " outside " welfare work. As already stated many of the items (e.g., social insurance, medical attendance, etc.) which are normally dealt with in the United States and other countries on the basis of the individual establishment, are in Great Britain the subject of statutory provision. Others, e.g., sports and recreation, especially in large towns where people live far from their work, often tend to be organised on the basis of the locality where the employees reside, rather than of the establishment where they work. For these and other reasons the extent to which " outside " welfare is expressly provided for by industrial establishments varies very widely according to local and other conditions, and it is not possible to lay down any rule of universal applicability.

In fact the evidence we have received from trade witnesses shews clearly that definite welfare schemes are very unequally distributed among different industries. In the textile trades they are comparatively rare, and, according to the evidence, are not generally desired, while in the engineering and metal trades they are much more widespread, probably as a direct legacy from the conditions of the war period when welfare administration was established by Government on a large scale in the munition trades, with the view of minimising fatigue and removing obstacles to the speeding up of output. Such war schemes were perforce organised *ad hoc* under a specially trained corps of " welfare workers," but the recent tendency, which we are disposed to think is a healthy one, is to deal with welfare (or at all events " inside " welfare) as an integral part of works administration and not as a separate form of activity. This tendency has gone still further in the United States where the word " welfare " is being discarded in favour of such terms as " personnel work," which has been defined as " the direction and co-ordination of the human relations of any organisation with a view to getting the maximum necessary production with the minimum of effort and friction and with proper regard for the genuine welfare of the workers."

While this definition brings out clearly the importance of this group of subjects from the point of view of industrial costs, it indicates with equal clearness the danger of misconception as to the real motives underlying welfare schemes, and the vital importance of so organising the work as to remove all grounds of suspicion.

Essentials for success.

The economic significance of well organised welfare work, from the point of view of industrial costs and production, is that, though expenditure on this object may appear in the first place to lay an additional burden on costs, the ultimate effect is generally to lighten costs by increasing productive efficiency. Nevertheless, welfare work must aim directly and primarily at promoting the social welfare of the employees, rather than at speeding up output, if the co-operation of the employees is to be enlisted, and without such co-operation the scheme is bound to fail. We strongly recommend that the co-operation of the workpeople should invariably be enlisted in the framing and working of welfare schemes, whether through the medium of Works Committees or of some other form of joint organisation.

We are further impressed with the evidence of the importance of knitting such schemes into the general fabric of works management, and placing this branch of administration under the supervision of a responsible partner, director or manager selected for his personality. If these two suggestions are carried out there should be no serious

danger of the objects of the welfare schemes being suspected, or of being so enlarged as to overlap unduly the national and local provision of similar benefits and facilities.

It may not be superfluous, however, in view of the high claims that have been made in evidence before us for the effects of welfare work both on production and on industrial relations, to add a word of warning. No welfare schemes, however energetically organised, can be a substitute for other forms of industrial efficiency. Such schemes, to produce beneficial results, must grow in a soil of capable management and healthy industrial relations. "It is ironical," said a witness who has had unique experience of the organisation of welfare work, "to have a whole lot of concerts and things like that, when your wages are low and your management is bad." Moreover, any attempt in this country to use such means, as is said to be sometimes done in the United States, to weaken trade union organisation is likely to poison industrial relations instead of improving them, and to lead to failure and disappointment. Subject to the above conditions we are of opinion that industrial welfare work, especially when organised as an integral part of management and with the co-operation of the employees, has been amply proved to have a beneficial effect, not only in improved relationships, health and social well-being, but also in increased productive capacity and efficiency, though it is usually impossible to measure the results in terms of cash saving.

Industrial Fatigue Research and Industrial Psychology.

Intelligently organised welfare work includes as an essential element the systematic observation of the practical effect of working conditions on welfare and output, with the view of arranging hours, rest periods, lighting, ventilation, temperature, and other shop conditions, and methods of work so as to avoid all unnecessary fatigue. With the same object, it includes the study of individual aptitudes so as to ensure that, within the limits of what is practically possible, the mis-fitting of "square pegs" into "round holes" shall be reduced to a minimum. All these branches of study are sometimes grouped under the title of "industrial psychology," and have since the war been the subject of scientific research by the Industrial Fatigue Research Board (supported mainly out of public funds) and the National Institute of Industrial Psychology, which is not State-supported, but derives its revenue from fees and voluntary contributions, including grants from the Carnegie Trust. The aims and work of these two bodies, which act in close co-operation, were described to us at length in evidence, and the work of the Industrial Fatigue Research Board was the subject of a special Memorandum in our "Survey of Industrial Relations."* We have nothing to add to

* See pp. 171–8. See also "Factors in Industrial and Commercial Efficiency," p. 264 for a short note on the National Institute of Industrial Psychology.

our description of the work of the Board in the introduction to that volume,* but we desire emphatically to record our opinion that this work is only in its infancy, and that there is a prospect that, if continued and developed on judicious lines and with sufficient financial resources, it may yield results of outstanding importance in the sphere of industrial efficiency and relationships.

In the systematic study of industrial psychology Great Britain does not stand alone, though it occupies an honourable position. A great deal of valuable investigation has been carried out in the United States. A Report recently issued by the International Labour Office on Industrial Relations in the United States points out that "the study of working conditions . . . is now being undertaken in the United States from a scientific standpoint in order to evolve a series of general principles more or less applicable throughout industry."† In Germany, also, according to the evidence, the subject is being pursued with characteristic thoroughness.

In these circumstances we desire to see the work of the Industrial Fatigue Research Board extended, consolidated and expedited. We are convinced that, short of permanent endowment, public support and control offer the only effective guarantees for the thorough and impartial character of the research, and we should, therefore, strongly deprecate any change which would make the Board financially dependent on voluntary trade subscriptions. We are, however, equally convinced that it is essential that the Board, while retaining its independence, should be closely associated in its activities with the industries which are directly interested in the results of the research, both for the purpose of enlisting the support and ensuring the confidence of the trades, and also (and this is a most important point) for the purpose of widening the area of observation and experiment and enlarging the means of verification and control. In a matter like this, limited observation and research are like the laboratory experiments of the chemist, which may indeed be the foundation of great industrial inventions, but which must be tried out and subjected to long and elaborate tests before they reach the commercial stage. In the realm of industrial psychology there can be no adequate field of observation and control except the actual works operating under normal conditions. It is, therefore, of great importance that means of access in this field should be afforded to those responsible for industrial fatigue research, and it seems to us that the only practicable means by which this can be achieved is by interesting the industries themselves from the outset in the prospective inquiries.

The National Institute of Industrial Psychology is, on the whole, less concerned with original research than with the practical application of its results to the circumstances of particular works, with

* pp. 26–27.

† "Industrial Relations in the United States," p. 77.

conducting investigations at the request of individual firms, and with training welfare workers and investigators in the principles of "industrial psychology." It thus aims at supplementing and giving practical effect to the work of the Fatigue Research Board, and in so doing acts largely at the request of particular firms. We attach great value to this kind of work, which obviously supplies an essential link in translating the scientific results of the Board's research into workshop practice. But we think that in addition the Board's work of research should be more closely connected with the trades, without however sacrificing its independence, so as to increase their confidence and elicit their co-operation.

Suggestion for improved trade organisation.

It seems to us that the time has come when the whole range of problems falling under the head of industrial fatigue in the widest sense, and the practical bearings of these questions on the improvement of workshop conditions in each particular trade, ought to be made the subject of systematic consideration and observation by a standing Committee representing the trade itself. Such a standing Committee, which naturally would represent employees as well as employers, would keep in close touch with the Fatigue Research Board and would be of great assistance to that body by opening up wider facilities for observation, experiment and control. But it might do much more than this, by acting as an interpreter between the Board and the individual firms, many of which, as shown by the evidence before us, are very imperfectly aware of what is being attempted, and frequently apathetic as to its value.

It must be admitted that this lack of appreciation may be partly due to the extravagant expectations sometimes held out as to the immediate economic saving to be effected through the adoption of "welfare" schemes and attention to industrial psychology. To found general estimates on the striking results obtained over a limited field, presenting specially favourable opportunities of economy, can only lead to disillusion. On the other hand, while trade unions have generally been helpful in these matters, prejudice has undoubtedly been aroused among employees by the assumption sometimes made that the object of all these schemes is merely to speed up output, and not to benefit the worker. It is difficult, but at the same time essential, to keep constantly in mind that these two objects are not antagonistic but correlative, for on the successful solution of the problem of productivity must depend in the long run the maintenance and improvement of the worker's standard of life. We can think of no better means of dispelling prejudice, discounting exaggeration, and ensuring loyal and active co-operation in applying the ascertained results of research to practical working conditions than the establishment of the joint trade Committees which we recommend. What should be the precise form of these Committees

and in what manner, if any, they should be related to existing bodies, are matters which will need careful consideration in connection with the whole question of industrial organisation. Where Joint Industrial Councils exist, it would seem natural that they should take responsibility for this work, if willing to do so. As regards industries in which no such Councils exist, or in which they are not prepared to take up the work, we do not desire to suggest any hard and fast scheme of uniform application, but we strongly recommend that in all cases some representative organ should be established capable of speaking in respect of these matters for the industries as a whole.

(6) Standard of Living.

In the preceding pages the conditions of employment have been treated mainly, though not exclusively, in relation to competitive power. It need hardly be said that this limitation of point of view does not imply any failure on our part to appreciate the broader social aspects of the problem of industrial relations. We fully realise that, as stated in a previous volume, these conditions " cannot be judged exclusively from the point of view of output, without taking into account their reactions on the life and welfare of the workman, regarded as ends in themselves and not only as means to the creation of material wealth."*

These broader considerations find recognition in the Memorandum accompanying our terms of reference which specifically contemplates a " satisfactory standard of living " as well as " sufficient and continuous employment " as one of the main objectives of our inquiry. Throughout the preceding discussions we have carefully kept in mind these aspects of the problem, and even when looking at industrial relations from the point of view of industrial efficiency, we have repeatedly turned aside to comment on the social results of the adoption of particular forms of policy or practice.

So far, however, we have tacitly followed the usual assumption that the " standard of living " is practically equivalent to the average " real earnings," and our examination has been directed rather to questions of remuneration, hours of labour, continuity of production, and other conditions of employment, than to the standard of living as such. In fact, however, the assumed equivalence is far from being complete, and the relations between the standard of living and wages are frequently misunderstood.

Relation between standard of living and wages.

In the first place, earnings, though the chief source, are not the sole source from which the standard of living is sustained. Even if subsidiary sources of income be neglected it must not be forgotten that under modern conditions a substantial and increasing

* " Survey of Industrial Relations," p. 2.

contribution towards maintaining the standard of living arises from the public provision of amenities which are enjoyed either gratuitously or at a cost far below their real value. Such, for example, are the benefits of education and sanitation, and provision for such contingencies as sickness, accidents, old age, unemployment and destitution. In the aggregate the social expenditure in Great Britain on all these purposes is very large, much larger than in any other country, and though it does not bear a high proportion to the national wages bill, it is evident that the provision which it represents is an important contribution to the worker's standard of living, the more so that this contribution is in a form much more valuable to the average wage earner than any purchasing power which he would gain if the entire sum were devoted to an increase of wages.

While earnings are the main source by which the standard of living is maintained, that standard is primarily determined not by the amount earned, but by the amount devoted to household and other beneficial expenditure, subject of course to the degree of wisdom with which that amount is spent. It is common knowledge that workers in receipt of the same average earnings may vary greatly in respect of the amounts which are devoted to household and other similar purposes, while housewives differ materially in the beneficial results which they can obtain from the same expenditure. Nor are these variations merely the result of individual differences of habit or character. They are also intimately connected with systems of employment. To take one notable example, to which reference has already been made,* it is generally found that the more irregular and casual the employment the more difficult it is for the housewife to maintain by her expenditure a regular and even standard of living for the family. High casual earnings, varied by periods of low earnings, lead almost inevitably to wasteful housekeeping, and thus depress the standard of living. This is one of the reasons which has weighed with us in advocating a policy of " decasualisation," though the argument used in the preceding section was based primarily on the proved high cost and low efficiency of casual labour.

Considerations of stable housekeeping also supply a strong additional argument in favour of schemes of national insurance against sickness and unemployment, as all these schemes tend to " even out " the available income and so to minimise the degree to which intermittent earning power interferes with the customary standard of life.

These examples suffice to make it clear that, while the purchasing power derived from high earning capacity is by far the most direct and important factor in enabling a " satisfactory " standard of living to be maintained, the conception of such a standard as an objective to be pursued is by no means identical with that of high purchasing power, still less of high " nominal " wages.

* See p. 138 above.

It goes, of course, without saying that wages and standard of living are closely connected, and that any material change of the one must be reflected in a movement of the other in the same direction. But to the question which is cause and which is effect, no simple and universally true answer can be given. It is clear that the customary standard of living, being rooted in habits that offer a certain resistance to change, is to an appreciable, though varying extent a determinant as well as a resultant of the current rate of wages. Indeed some economic theorists in the past (including men of such diverse outlook as Ricardo and Marx) attributed to the standard of subsistence a preponderant role in the fixing of the wages of labour. Without endorsing this extreme view, which in the present circumstances of Great Britain is certainly untenable, we cannot doubt that the customary standard of living does exercise on the current rate of wages a stabilising influence, which varies in extent in accordance with racial characteristics, the stage of culture reached, and the conditions of competition and combination prevailing in the country concerned. In certain oriental countries the influence of customary standards of living on the rates of wages is much more powerful than in a country like the United States, where modes of living are so fluid that it is difficult to apply to them the conception of a "standard." In the conditions prevailing in British industry, dependent as it is on foreign trade, the most effective way, perhaps the only effective way, in which the standard of living can permanently act upon wages is through its influence on productivity. This influence may be substantial, especially in the case of those labourers who are living at, or near, the "subsistence" line.

The view here expressed as to the mutual reaction between "real" wages and the standard of living has little in common with the theory which in recent years has obtained a certain amount of favour, that high wages by leading to high purchasing power tend automatically to stabilise themselves, in virtue of the increased demand thus generated for industrial products, and the consequent enhanced capacity of industry to sustain a high rate of wages. This assumption is mainly based on recent experience in the United States, where a very large proportion of industrial production is destined for home consumption, and the home market is surrounded by the ring fence of an enormously high customs tariff. In such circumstances there is no doubt that the increased purchasing power resulting from the high wages policy which prevails in certain industries has a certain tendency to keep up wages also in those other industries which supply articles of consumption for the wage earners. It would be rash to infer that a similar result could be expected to follow in anything like the same degree in Great Britain where so large a proportion of articles of consumption are imported. Both in the United States, and elsewhere, there can be little doubt that the original impulse towards the adoption of a high wages policy,

or at all events the underlying force which enables the high level to be maintained, is generally to be found in increased productivity. The characteristic feature of the economy of the great industrial establishments of the United States is not merely the high wages which prevail, but the combination of high wages and low labour costs per unit of output, and this combination depends on the power of making the freest use of mechanical aids to productivity, and of applying the services of all grades of workers in the manner most conducive to output without any hindrance from trade customs or restrictions.

It has been already observed* that men's habitual judgments as to what constitutes to them a " satisfactory " standard of living tend to be more relative than absolute, and that in practice the test that carries most weight is comparison with past experience. Obviously this is but a superficial and rough and ready test, but when we go beyond it and seek to establish a positive standard on a statistical basis, we find no material for the purpose, beyond such scientific data as are available for constructing a minimum physical standard of nutrition.

Nevertheless, we would not take leave of this subject without emphasising the fact that the idea of a " satisfactory " standard of living is in reality not a simple quantitative notion, but a highly complex conception, into which enter " qualitative " considerations of habit and custom, taste and racial culture, as well as that of the mere volume of earnings available. It is impossible in such a Report as this to pursue the analysis so as to take account of " imponderable " factors of this kind. For us, therefore, as a Committee the main problem must remain one of maintaining a reasonably high and regular level of " real " earnings. But we would not in consequence have it thought that we ignore or underrate the social and (in the widest sense) spiritual aspects of the standard of living, or that we imagine that a " satisfactory " standard can be a worthy goal of national effort unless it take account not only of quantity of means of subsistence but also of quality of life.

Movement of standard in recent years.

If we confine our attention to those elements in the standard of living which are capable of some sort of measurement and comparison, it is of great interest to inquire what the available statistics can tell us of the movement of the standard in recent years so far as indicated by these elements. There are two possible lines of inquiry, the one " extensive " and the other " intensive." For the first purpose the movement of " real wages " is, in spite of its imperfections, the best index available, but the existing data only permit this movement to be very roughly estimated. Such figures as are available indicate

* See p. 11.

that over a period of 40 years (1888–1928) the weekly rates of money wages for similar grades of work have advanced by about 120 per cent., and the cost of living by about 90 per cent., showing an advance in "real" weekly wages of about 16 per cent. The average rise in the level of "real" earnings, taking into account such considerations as the changes in the proportion of different grades of workers, would probably be considerably in excess of this percentage. A similar comparison with the period immediately before the war shows that the average increase in weekly money rates of wages for similar grades of work since that time has not been much greater than that in the cost of living, so that the average level of "real" wages is at present only slightly higher than it was just before the war. But it is important to note that the rates of wages of unskilled labourers, i.e., of the classes nearest to "subsistence level," are those which have risen in the greatest proportion, with the result that the average "real" wages of unskilled labour are now 10 per cent. or more above the level of 1913.

In both the above comparisons no account is taken either of relative unemployment, or of the additions to "real" income now afforded by the vastly extended "social services." In so rough a comparison these qualifications, which act in opposite directions, may without serious error be offset against one another.

The second or "intensive" method of comparison seeks to trace the actual movement of the "subsistence" or "poverty" line. There are no official statistical data for this purpose, and such partial investigations as have been made have been carried out by voluntary inquirers, such as the late Mr. Charles Booth, Mr. Seebohm Rowntree and Professor Bowley. Of these investigations only the last mentioned has so far been repeated so as to yield comparative results,* and these results were summarised for us by Professor Bowley in his evidence. Though the inquiry was only made by sample and only for five towns, the scientific care with which it was conducted, and the pains taken to ensure that the sample selected should be fairly representative, make its results of the highest interest.

The periods compared were 1912–14 and 1923–24 and the areas covered, the method of sampling, and the "minimum" standard applied were the same in the two periods. "A minimum standard was defined below which it appeared that a family could not with the utmost economy be adequately fed, clothed and housed." The percentage of families living above this standard was found to have risen in ten years from 88 to 95·3, if full time wages be assumed

* We understand that at the present time a new Survey of London Life and Labour is being conducted with a view to enable comparison to be made with the results of Mr. Charles Booth's great inquiry. No results however are at present available.

at the latter date, or to 92 if account be taken of broken employment. Meanwhile, the proportion of families living definitely below the minimum standard* fell by one-half, even after allowing for unemployment. Professor Bowley adds that " the improvement is due to increased real wages of unskilled labour and to the reduction in the number of children, the first cause having about twice the influence of the second."

Though it is greatly to be deplored that any appreciable percentage of the population should still be living below the subsistence line, it should be remembered that according to the sample inquiry nearly one-half of these cases in 1924 consisted of families in which the father or husband was dead or unable to work†, and that the proportion of cases in which the deficiency was attributable to insufficiency of the wages of a man in full employment in 1924 was only one-fifth of the proportion just before the war.

It is much to be hoped that carefully conducted researches on these lines will be greatly extended and periodically repeated. Meantime, the limited results already obtained confirm the conclusion to be drawn from the statistics of the movements of real wages that, while there has been no marked upward or downward change in the general level of the standard of living since the immediate pre-war period, there has been a very appreciable improvement in the standard of life of the less highly paid sections of workers, resulting in a substantial diminution of extreme poverty in the sense of an actual deficiency of the means of subsistence.

Probably the element of well-being which has least improved is that of housing accommodation, the acute shortage of which is not only, as we point out elsewhere,‡ a hindrance to industrial mobility, but perpetuates a degree of overcrowding which must have lamentable effects on health and morals, to say nothing of social amenities. We therefore cordially support all well devised forms of public action which are calculated to decrease overcrowding and to improve the standard of housing, without discouraging private effort in the same directions.

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* i.e., excluding the " marginal " cases.

† This was before the institution of the State system of Widows' and Orphans' Pensions.

‡ See pp. 236–7 below.

SECTION VI.

OTHER FACTORS IN COMPETITIVE EFFICIENCY.

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VI. OTHER FACTORS IN COMPETITIVE EFFICIENCY.

(1) Marketing Organisation.

An important part of our task has been to enquire whether British export trade suffers through any defect in the machinery for selling goods, especially in overseas markets.

Our attention has been directed to two main forms of marketing organisation. On the one hand, goods may be sold through merchants or middlemen in Great Britain, either for overseas or for the home market, or they may be sold or consigned to merchant houses in overseas countries. On the other hand, they may be sold through a manufacturer's own marketing organisation, either at home or abroad, or through a joint marketing organisation. No doubt these statements are over-simplified, and the subject is certainly one in which it is very difficult to make generalisations that are not subject to qualifications and exceptions. There are, of course, several kinds of merchant, and more ways than one by which a manufacturer can directly conduct his overseas trade. The main antithesis, however, is between the practice of selling through an intermediary and of selling direct.

Both these systems prevail very widely in British overseas trade, and though there is some evidence that direct selling is on the whole gaining ground, there is still a great field within which the merchant system remains predominant. Both systems have had their advocates and critics among the trade witnesses who appeared before us.

The Functions of the Merchant.

Critics of the merchanting system stated that export trade is often lost to British manufacturers through the fact that it passes through the hands of a merchant to whom it is immaterial whether he sells British goods or foreign. The system arose before international competition developed, and in days when British goods predominated; but under modern conditions there is bound to be a tendency for the merchant to buy those goods which are the cheapest, irrespective of their origin. Sometimes, it has been suggested, the merchant house attains such size and importance that it is in a position to exercise a large measure of control over the market. Other critics have suggested that merchants established in a given market sometimes show a tendency to resent and oppose the intrusion of newcomers; and if merchants wish to keep a market to themselves the system may easily develop into a smoke screen between the market and the manufacturer, which prevents him from becoming acquainted with its actual requirements. There is also a tendency, it is said, for the merchant to become the sole agent of a particular manufacturer, with the consequence that manufacturers who are not allied with a merchant house have either to establish their own branches in the market, or to co-operate with other manufacturers in establishing joint selling organisations.

On the other hand it is pointed out that the export trade of this country was, to a very great extent, built up by merchants, and a very large part of it is still conducted by them. The cotton industry is of course famous for its unique system of merchant shippers who, unlike the general merchant, deal chiefly in British goods and trade for the most part in one direction only. There are very few trades in which the merchant does not play some part. The general merchant very frequently trades both ways and with many countries, and he renders a service to the consumer who, otherwise, could not know to which manufacturer to apply to fulfil his particular requirements. It is claimed with justice that the merchant system provides an intelligence organisation of a very widespread and efficient kind, and is on the whole effective in keeping the manufacturer in touch with the desires of consumers. The merchant in the traditional sense, who is experienced in the whole technique of buying and shipping, who possesses warehouses in the overseas markets in which stocks are carried, and who has built up a wide and valuable connection and a rich store of experience and knowledge of the market, supplies to the manufacturer a selling organisation which it would be impossible for him, at least for a long time, to build up for himself. There are some markets in which it is probably undesirable for the manufacturer to do trade direct, and in a new country with a limited market the services of a merchant are essential. Furthermore, in some trades, the merchant is an exceedingly important factor in the financing of export trade. As the Manchester Shipping Merchants pointed out: "it is not merely possession of financial resources sufficient to carry through expensive operations which makes the merchant's function important; beyond that there is trained discrimination in granting credit—both as to whom to grant it and for what period—which protects the trade from the losses which would otherwise be incurred." There are also commission houses of various kinds, acting openly between buyer and seller, who perform most useful services. There is, in short, no room for doubt that the merchant system has rendered, and still renders, great services to many British trades, and that it cannot rightly be said to have outlived its usefulness.

The evidence given to us by the organisations of manufacturers whose export trade is to any important extent conducted by merchants tended on the whole to endorse the claims made by the export merchants with regard to the utility and necessity of their functions.

We are emphatically of opinion that a manufacturer who employs a merchant or other intermediary to market his goods abroad is not thereby dispensed from the duty of visiting the markets himself, and becoming personally acquainted with his representatives, as well as with market conditions. If those who are manufacturing for the export markets have continuous information as to the rapid changes that are always taking place, the merchanting system is much less

likely to obscure their view of the needs and wishes of the consumer. It is also desirable that a manufacturer should give the merchant expert technical advice and assistance regarding the selling of his goods.

In stating these conclusions we are aware that there are important export trades, of which cotton is perhaps the most striking example, in large sections of which it is unusual for manufacturers to take any such active interest as we have recommended in the overseas markets for which their products are destined, all these matters having for long been the exclusive concern of the merchant shippers. In this respect the position of the Manchester trade is probably unique, but even here it is by no means impossible that changes will take place.

We have received very little concrete evidence relating to the effect of the cost of the merchant's operations on the actual price at which goods are sold in the overseas markets. The organised bodies of merchants in the cotton and wool textile industries have stated that their profit is very small, owing to the intense competition for the business that is going, and have contended that it would be very much more expensive for the manufacturers to market their own goods. The manufacturers concerned appear on the whole to accept this point of view, and it is certain that for the manufacturer to build up an effective selling organisation of his own is usually a very costly matter.

The complaint is very frequently made that there are too many non-producers between the manufacturer and the consumer. The representatives of the co-operative movement said that in their experience the merchant was duplicated again and again. This complaint referred primarily to the purchase of goods on the wholesale produce markets, but the witnesses extended their statement to the export merchant as well. Other witnesses have stated that while the export merchant is indispensable and well worth the increment of price due to his particular remuneration, there are a great many intermediate commission takers, and people who, it is claimed, do no serious work and take no real financial risk and who are in effect parasitic.

Some of this criticism seems to us to arise from a confusion of ideas. Subdivision of function, in distribution as well as in production, is one of the dominant tendencies of modern trade, and though there is often a counter-tendency for the main business enterprise to re-absorb within itself some of the functions previously carried out by intermediaries, this operation does not dispense with the necessity of performing and paying for any useful services which the intermediaries formerly rendered. Generally speaking, the question whether the useful services performed by intermediaries are or are not excessively remunerated is of much greater economic importance than the mere number of classes of intermediaries among whom the services are divided. This is a question which, so far as we can see, can only be tested by competition, always assuming that competition

has free play. In these respects the situation in the export trade, with which we are primarily concerned, probably differs materially from that prevailing in the home market. The idea that in the conditions of strenuous competition which prevail generally in the export trade, a body of useless and " parasitic " middlemen are permanently maintained by any trade strikes us as *prima facie* improbable.

It may, however, frequently happen that a particular middleman may survive his usefulness and become a " parasite," unless manufacturers and traders are continually on the alert to reduce the costs of each operation of distribution to the lowest possible point. Needless to say, this obligation applies equally to services performed by them direct or through an intermediary.

In the above discussion of the effect of the cost of merchants' operations on the actual price at which goods are sold, we have taken account primarily of the conditions which apply to export trade. In such trade not only do the forces of competition among exporters, either in the same or in different countries, tend to limit the margins which the middleman can obtain, but the transactions do not involve the question of retail distribution to the ultimate consumer. Even in considering the prosperity of the export trades, however, the cost of retail distribution in the home market cannot be entirely left out of account, for as we pointed out in " Further Factors in Industrial and Commercial Efficiency " (p. 16), " almost all export industries also produce more or less for the home market, and the extent and profitableness of this market may often be of crucial importance in determining their competitive strength in exporting to overseas countries." The cost of distribution is also relevant to the level of retail prices, and therefore to the " standard of living " of the population.

We do not propose to recapitulate here the results of our enquiry into the relation of costs of distribution to selling prices in pre-war and post-war years (*see* " Further Factors in Industrial and Commercial Efficiency," pp. 16–20 and 108–121). Since that enquiry was made our attention has been called to a number of further instances in which the difference between wholesale and retail prices was apparently excessive, but it is impossible on the information supplied to judge whether these are typical, or due to exceptional causes. We are, however, of opinion that there is no effective method of checking such abuses so long as many manufacturers cease to take any interest in their products as soon as they are disposed of to a wholesaler. We have already stated that in our view manufacturers should keep in direct touch with the conditions in their overseas markets, even though they may rely on merchants to distribute their products. We consider that a similar attitude to the home market (which for some industries is the most important outlet for their products) is at least equally necessary, with a view to discovering and so far as possible removing any obstacles which block the flow of trade from the manufacturer to the consumer.

Direct Selling.

We turn now to the alternative of selling direct to the consumer through a manufacturer's own marketing organisation or through a joint marketing organisation. As has already been said, the evidence given to us points to a certain growth in what is known as direct trading in recent years. We were informed by representative witnesses that a large part of the trade is done direct in certain branches of the metal and engineering industries, and in electrical manufacture and cables. There is also a good deal of direct selling in the chemical industry and in the hosiery and carpet trades, and a certain amount in the motor-cycle industry, and in the boot and shoe trade.

As regards the wool textile industry the manufacturers pointed out, in evidence, that the losses in the great trade depression of 1921 had been so great that the distributive machinery had broken down and manufacturers had subsequently been compelled to do much more of their own merchanting, with the result that they had to carry stocks which were formerly held by the merchanting houses and bear the financial risks of trading direct in certain markets. A large number of firms in the industry have agents or travellers through whom they do business direct in practically all markets, but these firms also do considerable export business through merchants and shippers in this country. The existence of small-unit production also limits direct trade and requires that a large proportion of the export trade should be transacted through merchants and shippers. It was contended in evidence given on behalf of the merchants that in a great many countries it would not pay manufacturers to sell direct, as the merchant has to deal with a very large number of smaller merchants; and we may add that the manufacturers stated that they considered the merchants to be a necessity for the trade.

Even in the cotton industry, with its highly organised and diversified system of merchant shippers, there is a slight tendency perceptible to do direct trade, at least in certain sections, though the movement is not sufficiently general to affect the position of the shipping merchants. The Cotton Spinners' and Manufacturers' Association said, " It is unusual for the actual manufacturer or spinner to export, but there is a growing tendency to do so, the object being to eliminate middlemen as far as possible. There is a decided tendency in some cases for the manufacturer himself, not only to pack his own goods, but actually to ship them abroad, but that is not being done to any wide extent. There is no tendency for the manufacturer to start his warehouse abroad, and do his own distribution." Both spinners and manufacturers considered that it was more advantageous to the trade as a whole that the businesss should be done through merchants, and that it would be highly dangerous, even if it were possible, to eliminate the merchant from the Lancashire trade.

On a general review of the evidence, it is clear that the systems of merchanting and direct selling are bound to continue side by side,

and in a great variety of forms, in British overseas trade, since each method possesses special advantages which make it best suited to the particular circumstances of certain branches of trade. Consequently, neither system is likely to displace the other, though as already stated a movement is perceptible towards more direct selling. The merchant will continue to dominate the overseas marketing of the products of miscellaneous industries manufacturing a large variety of goods to be exported in comparatively small consignments. His services will also probably be found necessary in respect of export to countries where it is essential to do trade both ways. But in the case of an industry producing a single commodity, and particularly a specialised commodity which requires expert knowledge in order to sell it, the most advantageous course for a firm which deals with a large volume of trade is usually to have its own organisation. Between these extreme examples lie a great range of cases in which the relative merits of direct and indirect trading are less clear, and in which they need to be carefully weighed against each other by each manufacturer in the light of the general considerations set out above.

Before taking leave of this subject we may refer to the great co-operative wholesale societies which are primarily constituted for the purpose of supplying the requirements of the retail co-operative stores, and which afford an example of highly organised purchase and distribution on a very large scale and at low cost, under a system which presents many features of great social and economic interest.* In the main, however, the overseas activities of the co-operative organisations are concerned with the purchase of produce for consumption in Great Britain, rather than with the marketing of British manufactures abroad, which is the subject-matter of the present section.

Joint Selling Organisations.

Where the prospects of doing a large trade are not bright enough to justify the building up of a costly selling organisation, or where individual firms cannot afford to do it by themselves, the question arises whether several firms might not come together and form a joint organisation.

We do not refer here to joint publicity campaigns conducted by groups of firms or by industries as a whole, or to forms of combined selling which arise from the financial association, for wider purposes, of two or more firms. We have in mind rather the combined employment of travellers, or the setting up in a given market of a permanent office and staff to whose upkeep several firms contribute, or arrangements whereby the output of several firms is disposed of in the overseas markets through the organisation of a firm specially constituted for the purpose.

*See p. 187.

We have endeavoured to learn from trade witnesses what the experience of the various industries has been in this matter. We have found considerable differences of opinion on the merits of the question, and experience on the whole has not been favourable. A good many attempts have been made in the past to persuade manufacturers to undertake some form of joint representation in various overseas markets, but it has very often been difficult to arouse interest in such schemes ; and, although a number of experiments have been made, they have usually failed, largely on account of trade jealousy and lack of confidence among the parties to the arrangement. Thus broadly speaking it may be said that, although attention has been given in several industries to the question of joint representation, and although examples of joint selling organisations exist, it is not a form of marketing organisation which has been successfully used to any extent by British manufacturers.

In considering the possibility of promoting British export trade by means of joint selling organisations, it is desirable to draw a clear distinction between organisations embracing competitive goods produced by different manufacturers and those dealing entirely in " non-competitive " goods. The evidence suggests that the former type of common selling organisation is rarely successful, except as part of a more extensive combination or " cartel " which regulates the productive or financial relations among the participating firms. Combined selling arrangements confined to non-competitive articles stand on a different footing, but where a variety of goods of very different selling capacity are included, there is likely to be discontent on the part of the producers of those articles which do not sell easily, and unless means are found to avoid this cause of dissatisfaction it may lead to the breakdown of the whole scheme.

After considering all the difficulties put before us, and the discouraging results of past experiments, we are by no means convinced that there is not a considerable field in which some carefully thought out system of joint selling would be of material assistance in promoting British export trade. A witness representing the engineering industry said that there was too little combined selling in this country; the individualism of the British character, he suggested, makes combined action in this matter difficult, but " this," he said, " won't do under modern conditions. Purely individual effort cannot succeed against the combined and highly organised efforts of competitive countries." We have a feeling that the trait in the British character, which is sometimes dignified as individualism and sometimes criticised as jealousy, may tend to exaggerate the difficulties and to underrate the ultimate benefits of this as of other forms of economic co-operation. It is, of course, out of the question for us to lay down in detail the conditions of success, which will naturally depend on the special circumstances of each trade. But we are convinced that leading manufacturers and their representative

associations in each of the more important export trades would do well to examine the position thoroughly and systematically, with a view to determining whether any and if so what form of co-operative action for the purpose of marketing their goods in overseas markets would be suitable to the circumstances of their trades. Experimental joint arrangements founded upon such examination and carefully designed to test the possibilities of co-operative marketing under representative conditions and over a sufficient period of time might, we consider, amply repay their cost from the point of view of the trade as a whole, even if the direct results were negative.

Overseas Agents and Commercial Travellers.

Agents.—A good deal of export trade is done through agents in overseas markets, who either sell on commission, or receive commission in addition to a salary, or in some instances buy on their own account. The evidence leaves the impression that a certain amount of trade is lost to this country each year through insufficient care on the part of British manufacturers in the selection of their agents abroad, and through defective supervision of the agents when appointed, and want of support and attention to their requests and representations. It should not be necessary to dwell on the importance of finding the right agent; nevertheless, it appears from the evidence that British manufacturers sometimes neglect so obvious a precaution, and occasionally do not even ascertain whether the agent is genuinely prepared to forward their affairs, or whether he is merely seeking their agency in order to eliminate competition with other and more profitable business. Sometimes, too, they entrust their affairs to an agent who is handling so many agencies that the prospects of receiving due attention are slight. There should be no difficulty in obtaining information about prospective agents, either from the Chambers of Commerce and the banks interested in various geographical areas, or from the Federation of British Industries. Moreover, the Department of Overseas Trade has an extensive organisation for supplying British firms with trustworthy information as to agents likely to be suitable, and for obtaining information regarding any prospective agent that an exporter may have in mind.

There is also evidence that the British manufacturer frequently fails to realise the importance of supporting his agent, when appointed. Sufficient attention is not always paid to his representations, and inadequate allowance is sometimes made for expenses in connection with travelling, advertising and so forth, and for the outlay entailed by the introduction of a new article to the market. We have also been informed that rates of commission often compare unfavourably with those given by foreign manufacturers. All these are obviously matters of business detail, on which no uniform rule is possible, but which require adjustment in accordance with the conditions of the market, the position and personality of the agent,

and the nature of the business to be undertaken. What is important is that the competitive power of British trade in overseas markets should not be impaired by remediable defects in the arrangements for representation in those markets.

The experience of those who speak with the greatest authority on this question undoubtedly points to the desirability of appointing a British agent in a foreign market wherever possible, and failing that, a national of the country concerned.

It is also important to understand that no arrangement with regard to agents, however satisfactory, can dispense with the necessity that the manufacturer should himself visit the markets and become personally acquainted with his representatives, as well as with market conditions.

Commercial Travellers.—On the subject of commercial travellers in overseas markets, the evidence presented to us seems to indicate a somewhat wide diversity of conditions in different trades. Witnesses from some of the trades (e.g., cotton and wool), which are most highly organised for purposes of export, spoke in the highest terms of the training and linguistic capacity of their travellers. From other witnesses we heard a good many criticisms of the lack of knowledge possessed by commercial travellers of the articles which they are endeavouring to sell, and of the languages of the countries which they visit. Other witnesses declared that German and American travellers are more alert and pushing, and that British travellers take too narrow a view of their duties, and do not keep their eyes open with a view to giving intelligent suggestions to their principals regarding the general furthering of their business. We feel sure that in cases where this last criticism is justified the fault lies usually, at least in part, with the home firm. Unless a traveller is encouraged to offer suggestions, and stimulated to continue to do so by the knowledge that his previous suggestions were really considered, it is certain that this valuable source of information as to changing conditions in local markets will rapidly dry up. We have the impression that British firms have something to learn from their foreign competitors as to their intimacy of relations not only with their agents abroad, but also with their commercial travellers.

We have been informed by some witnesses that it is more difficult than before the war to obtain men of personality, energy and resource, and equipped with all the other necessary qualifications, who are attracted by the strenuous career of a commercial traveller in overseas countries. We shall recur to one aspect of this matter when dealing with the question of industrial mobility (see p. 244). It must, however, be obvious that, if and so far as the supply of suitable candidates for posts of commercial travellers in any industry fails to keep pace with the demand, the questions of their selection,

training, treatment and remuneration tend to assume an increasing importance. These, of course, are matters for the consideration of the trades themselves, always bearing in mind that the most essential factor in selling power is usually not technical or linguistic capacity, or even mental and educational equipment, but character and personality.

It may be added that, even where a firm possesses a permanent organisation in an overseas market, it may often still be desirable to send commercial travellers to that market, at not too infrequent intervals, for the purpose of keeping in touch both with the market and with the individual customers, and also of backing up the permanent organisation, with which any travelling representatives should of course keep in close touch. We repeat again, however, that no arrangements of this kind should be considered to dispense the heads of the home firm from paying personal visits to the overseas markets with which they trade.

We have not sufficient material to be able to express a definite opinion on the question whether on the whole commercial travellers play an increasing or decreasing part in the overseas selling organisation of British manufacturers and traders. Probably the experience of different trades varies in this respect. But in any case the part so played is a highly important one, and it is very desirable that the employment of commercial travellers in overseas countries should not be unduly hampered by regulations or burdens imposed by those countries. Some aspects of this matter, particularly the Customs treatment of travellers' samples, were dealt with comprehensively in the Geneva Convention of 1923 on Customs Formalities. In an earlier volume,* we have expressed our appreciation of the value of that Convention, and we venture to express a hope that the number of countries which have ratified it (at present twenty-eight) may be considerably increased.

Advertisement and Display

The whole question of the net value and precise function of different forms of advertisement as a factor in successful overseas marketing is one which has received a great and increasing amount of attention in the commercial world in recent years, without, however, giving rise to any generally agreed doctrine on the subject.

There are some forms of advertisement, e.g., attractive methods of packing and "get up," which have a great and incontestible selling value. Moreover, catalogues attractively and accurately prepared, so as to be suited in language and units of weight, measurement, and currency, to the markets to which they are sent, are obviously useful means of propaganda and marketing. In these

* "Survey of Overseas Markets," p. 18.

matters British traders have in the past been subjected to much criticism by overseas firms and observers, who have compared their methods to their disadvantage with those of many of their foreign competitors. Some evidence to the same effect was submitted to us; but, on the whole, the general weight of the evidence tended to show that British firms have learnt much in recent years, both from the continual warnings they have received, and from their own observation of the practice of their rivals, and that, while in some trades there is still leeway to make up, the "get up" of many classes of British goods exported overseas now compares not unfavourably with that of the foreign goods with which they compete. Moreover, a great improvement is said to be discernible in the form and contents of British trade catalogues.

It is when we turn from these specific methods of recommending goods to their users, to the more general methods of advertising in the press, or by means of posters, that there is the greatest room for difference of opinion. Probably the truth is that the experience of different trades varies as to the selling value of general advertisements, and in any case this is a matter on which it is impossible to dogmatise or to state any general conclusion. Where, however, a trader decides to advertise in the foreign press, it is obviously of great consequence that he should select the most suitable newspapers for the purpose, and this is a matter on which the Department of Overseas Trade can be of much assistance. Experiments in joint advertising in foreign newspapers have, we understand, been made with success by the Federation of British Industries, which has had the enterprise to reserve an "All British" page for the purpose in suitable newspapers. The development of this effort will be watched with interest.

The important work carried on by the Empire Marketing Board for the purpose of encouraging the sale of British and Empire foodstuffs and materials within Great Britain has given rise to the suggestion that some analogous machinery might be set up with a view to commending British manufactured goods to the consuming public in overseas countries. While, however, we should be glad to see all possible assistance, advice and encouragement given by the official representatives of H.M. Government to any well considered efforts on the part of traders or trade organisations to advertise their products in foreign markets, we do not recommend that a State Department should itself undertake such work at the public cost. We feel that any such step would involve H.M. Government in undesirable responsibilities, and would probably be regarded by foreign countries as involving a direct subsidy to export. If, as is probable, our example should find imitators, the result would be to foster a new and insidious form of State bounties on foreign trade, which it was the desire of the Geneva Economic Conference to bring to an end.

General Efficiency of Organisation.

We are impressed by some passages in the latest Report by H.M. Senior Trade Commissioner in India, in which he emphasises the importance in modern conditions of new and scientific methods of marketing. Speaking from many years' experience in India and China, he says in effect that many British manufacturers fail to obtain their due share of the trade of the East owing to the fact that their marketing methods are faulty. The Department of Overseas Trade inform us that criticisms of this kind are not infrequently received, and that they do not apply to the Eastern markets alone. Many complaints from various parts of the world have come to our own notice. It is, of course, true that instances of inefficiency are apt to attract more notice than they deserve, and naturally we are not in a position to pass judgment on specific cases. But it is impossible, on a study of the evidence as a whole, not to receive the impression that, although a number of British exporting firms in all industries are as well represented in the consuming markets as any exporters in the world, too many British exporters show a want of proper activity in the way of intelligent and sympathetic study of the markets, and energetic salesmanship.

We regard it, therefore, as the duty of every British exporter to review his own arrangements and to make sure that they are beyond criticism. Such a review should cover not only the sales organisation but also the arrangements in the works and commercial office in this country; for however energetic and efficient a sales organisation may be, its efforts will be largely wasted if not properly supported from home. In this connection we may make reference to the importance of technical skill in producing tenders and the necessity of supplying goods fully up to the quality represented by the sales organisation. We may further instance such apparently obvious points as the desirability of prompt and courteous attention to direct inquiries, or the fact that orders are not likely to be repeated if trouble is caused by errors committed through inattention, or if goods are so badly packed that they arrive damaged. Finally, a matter to which too much importance cannot be attached is the keeping of promises in regard to delivery dates, for slackness in this direction can only lead to loss of trade.

It is quite certain that, unless the characteristics of the market are scientifically studied, with the satisfaction of the individual consumer as the governing factor in the whole of the manufacturer's organisation, British trade cannot hope to hold its own, still less to advance, when pitted against the capacity for systematic approach to their objective which is displayed by some of our foreign competitors.

Exhibitions and Fairs.

A well-known means of commending goods to possible buyers is the exhibition or trade fair. The Society of Motor Manufacturers

and Traders have made extensive use of this method, and they claim that their exhibition policy, controlled by the trade and for the trade, has not only established a world-wide business interest, but has enabled them to build up financial reserves which are used for various purposes for the benefit of the motor industry. Many other trades, including some which are not large enough to support an exhibition policy confined exclusively to their own products, find that a more comprehensive exhibition or fair is more suited to their conditions. On the relative merits of these two kinds of trade fair and exhibition we do not think it necessary or possible to pronounce any general opinion; each has its advantages and disadvantages, and each trade will doubtless decide on its own experience where the balance of advantage lies so far as concerns its own members. In general, however, we are convinced that participation by trade buyers in trade fairs, properly organised by responsible promoters, where there is no retail selling and no "side-shows," may often be beneficial to the manufacturer and the buyer, and helpful to the overseas trade of the country.

The general international or "world" exhibition is, however, on a different footing, and in the opinion of our trade witnesses such exhibitions have not in recent years yielded practical advantages to British participants commensurate with the expense incurred. Whatever may be the force of the political or other reasons which cause different countries to organise world exhibitions, and induce other countries, sometimes unwillingly, to participate therein, such displays must be judged, for the purposes of our inquiry, strictly by their merits and value as a form of marketing organisation, and from this point of view the verdict of British traders is at present mainly adverse.

On the whole, and apart from any political question that may be involved, we are disposed to agree that general international exhibitions have been very greatly overdone, and that their multiplicity and frequency tend to defeat their object, and to antagonise the trading community, who nevertheless do not always find it easy to withstand the pressure put upon them to participate. The result is to impose on trade a burden for which compensation is rarely found in any resulting extension of markets, especially in view of the high tariff barriers which obstruct British trade with the countries in which these exhibitions are most often held.

Just before the war an effort was made, by the Berlin Convention of 1912, to define the character and restrict the frequency of international exhibitions of an official character in which governments should be asked to participate in future. The outbreak of war prevented the ratification of this convention, and we are not clear that its provisions would have been fully effective for the purpose, in view of the many loopholes and exceptions for which allowance

was made. We warmly welcome, however, the fact that international negotiations have now been resumed for the purpose of making a further attempt to deal with the matter.*

We wish to make it quite clear that the foregoing conclusions have no application to the case of one particular class of international exhibition which in our judgment stands on an entirely different footing from those referred to above, and should be judged by quite different principles. We refer to such exhibitions (of which the Paris Exhibition of Modern Decorative and Industrial Art of 1925 was an outstanding example) as are carefully designed with the single aim of shewing the level of human achievement attained in some defined branch of industrial science or art, and making it possible to institute comparisons both with the past, and as among the different countries of the world. Such an exhibition, if well planned, may afford a valuable opportunity to take stock of general tendencies and prospects, and to institute national comparisons which may yield lessons of great value to British manufacturers in the conduct of their business. But the benefits reaped will be general and indirect, and will accrue to the trading community as a whole and not specially to exhibitors, to whom participation may bring no direct financial gain. In our judgment, the cases in which national participation in exhibitions of this very special and limited type is called for in the public interest will be comparatively rare, but when they do occur the British section should be definitely organised, controlled and financed by a public authority. No charge should be imposed on individual exhibitors, who should only be entitled to participate if officially invited to do so, and subject always to compliance with a high standard of quality. It is clear that the strict enforcement of these principles of standard and selection, while essential to secure a high level of representative exhibits, is quite incompatible with imposing any charge on exhibitors based on the idea that they will gain by displaying and advertising their wares. We feel strongly that a clear distinction ought to be drawn between the policy and procedure to be followed in regard to international exhibitions in general, and in regard to this special type of "cultural" exhibition; and until the distinction is fully understood and adopted, we do not think that the foundations of a really satisfactory exhibition policy can be laid.

Quite different in character and objects from both these types of exhibition is the "British Industries Fair," an organisation which has grown and achieved striking success in recent years. Begun during the war, when the supplies of certain goods from abroad were cut off, the British Industries Fair has now become an annual event which attracts the overseas buyer in large numbers. Trade witnesses,

* A Convention for limiting the number of certain defined classes of international exhibitions was signed in Paris in November, 1928, by the representatives of 28 nations, including this country.

generally, have spoken favourably of the utility of this Fair, and the Federation of British Industries said that it is undoubtedly growing in importance and proving of great utility to certain trades. The only evidence to the contrary was given by the representatives of an association interested in the organisation of trade exhibitions, who protested to us against the accord of official support, and also criticised the actual administration of the Fair in certain matters of detail. We have made full enquiries of those responsible for the administration of the Fair, and have satisfied ourselves that there is no substantial ground for complaint. In our judgment, the continual increase in the size of the Fair and in the number of participators is a sufficient indication that it is meeting a real want. From the point of view of our reference we are in no doubt that the Fair is helpful to trade and employment, and we consider that it should continue to receive support, and that the Government should continue to take responsibility for it. We may add that the Fair is practically self-supporting except for a grant of £25,000 a year from Government for the purpose of advertisement and propaganda. We think that this moderate expenditure is amply justified.

•Another method of bringing British goods to the notice of the overseas buyer is the trade ship. We have not, however, heard of any enterprise of this kind having been successful, and in the circumstances, and in view of its great cost, it is not a form of advertising display which we could recommend for official adoption or encouragement.

The Machinery for Commercial Intelligence.

The Department of Overseas Trade.

British exporters have now at their disposal a means of obtaining from official sources information about foreign markets in a much more highly developed form than was the case a few years ago. Up to 1917 the Foreign Office and the Board of Trade had shared the responsibility for the collection of commercial intelligence. The demand of the commercial community for the unification and enlargement of the then existing system resulted in the setting up in 1917 of the Department of Overseas Trade as a joint department of the Foreign Office and the Board of Trade. Reference has already been made to some of the functions of the new department in the section of this Report dealing with Commercial Diplomacy (see p. 28). Its main work, however, is to furnish exporters of British goods with information regarding overseas markets and to further their individual commercial interests and those of their representatives abroad, as well as the more general interests of British export trade as a whole. The organisation and methods of the department are described in "Further Factors in Industrial and Commercial Efficiency," (pp. 288-91), and, as we pointed out in the introduction to that volume, it is wrong to regard it as an independent department

overlapping the functions of the Foreign Office and the Board of Trade: on the contrary, it is a joint organ of those departments, established with the express object of co-ordinating their activities in the matter of commercial intelligence.

We have received a large amount of evidence regarding the work of the department from the representatives of the most important industries and trade organisations, and this has been examined with particular care, since while we have been sitting a proposal was made to bring the separate existence of the department to an end. As a result of our consideration of the evidence, we feel that whatever constitutional form the department may ultimately take, certain conditions should be fulfilled which we regard as essential for the purpose of safeguarding the interests of British trade. We consider it to be of great importance, for example, that, whatever be the future status of the department, its headquarters staff should continue to be a single organisation, and not on any account be split up into two or more parts attached to different departments of State. For example, it would be a most undesirable and retrograde step to assign commercial intelligence with regard to Empire trade to one department and commercial intelligence with regard to foreign trade to another, thus compelling the British exporter to deal with two separate offices. Again, effective means should be found to enable the headquarters officials to give direct instructions to members of the overseas services, whether in foreign countries or the British Empire, without the necessity of going through any department of State.

The evidence appears to us to prove that a high value is attached by the commercial world to the work of the Department of Overseas Trade. The Association of British Chambers of Commerce expressed the view that the department has rendered great services to the industry and commerce of the country. Such an organisation, they contended, is an essential part of the Government service, and any proposals for curtailing its activities would result in the money already spent in creating a very valuable organisation being thrown away. The Federation of British Industries stated in evidence that in their opinion the cost to industry would be very much greater if the department did not exist. A large number of trade witnesses, including those engaged in important industries such as cotton, wool textiles, engineering, motors and motor-cycles, various branches of the iron and steel industry, the electrical industry, and boots and shoes, paid tribute to the value of the services of the department, and several witnesses have expressed the view that the activities and services of the department should be extended. There have of course inevitably been complaints on a number of details, on each of which we have obtained explanations from the department. None of these points is of sufficient importance to require reference in the present Report. The only criticism of principle* came from

* Other than the criticism on the British Industries Fair, which is administered by the Department (see p. 171).

a Merchants' Association, who held that work of the kind done by the department should be done by the firms engaged in foreign trade, and is so done by large and efficient firms, and that it should not be a charge on the funds of the State. It will be seen that this criticism is directed at the whole principle of Government assistance in the dissemination of commercial intelligence. We feel, however, that in these days of keen world competition, more especially in a country whose very existence depends on the development and maintenance of its export trade, the action of the State in assisting exporters by the organisation of commercial intelligence is abundantly justified, and in any case the principle has been accepted in this country for many years. It is significant that, as we are informed, it is the large and well-organised firms in all industries which make the most efficient use of the department.

On the evidence before us, we have come to the conclusion that the work performed by the Department of Overseas Trade has a great and recognised value to British trade and industry, and we note with interest that the chief competing foreign countries are devoting much money and energy to building up corresponding organisations on the same model in order to foster their export trade.

We are, moreover, convinced that the limit of the department's usefulness has not by any means been reached; for there is still a surprising amount of ignorance among the business community as to the services which the department provides. We consider that steps ought to be taken by every trade association and chamber of commerce to draw the attention of all the firms in the various industries to this matter. Exporters should be encouraged to go to the department for information and assistance, and the representatives of exporting firms in the overseas markets, whether permanent or visiting, should make a point of keeping in touch with the department's overseas officers, who can often give them assistance of a very valuable kind. It used to be said that British consular officers did not display sufficient interest in commercial matters. We are assured that this spirit has largely disappeared, and that great stress is laid by those who are responsible for administering the consular service on the importance of the commercial side of consular officers' duties.

Holding the above views, it need hardly be added that we are strongly opposed to any steps which would impair or curtail the usefulness of the work of the department: on the contrary we desire to see its services further developed and much more widely utilised by industrial and commercial firms.

Unofficial machinery.

Turning to the unofficial trade machinery available for obtaining commercial intelligence from overseas and assisting British traders in overseas markets, the two principal organisations of a general character whose members are interested in the export trade are the

Association of British Chambers of Commerce and the Federation of British Industries. The Association of British Chambers of Commerce, which was founded in 1860, comprises in its membership chambers in Great Britain and Northern Ireland and British chambers in foreign countries. In the aggregate the chambers include over 45,000 members, engaged in industry and commerce, or in allied professions or occupations. The Association and its constituent chambers of commerce together form a national and local system for the dissemination amongst manufacturers and traders of commercial intelligence, for which it would be difficult to devise alternative machinery. For this and other purposes it is very desirable that this unofficial organisation should be more closely knit, and that some of the weaker chambers of commerce should be more representative and more effectively organised. We have heard that local difficulties have militated in the past against complete co-operation between the British chambers abroad and the Association at home, and, further, that the usefulness of some of the chambers abroad has been impaired through lack of the support of British traders in the country concerned. This can only be regarded as unfortunate, and it is highly desirable that all British traders in foreign countries should give active support to the local British chambers of commerce, and that each of these chambers should be affiliated to the Association in this country.

The Federation of British Industries was established in 1916 to form a central organisation which could voice the views and promote the interests of the manufacturers and producers of the country as distinct from merchants. The number of direct members of the Federation is nearly 200 Associations and over 2,000 individual firms. The Federation claim that indirectly, through the affiliated trade associations, they are in touch with the vast majority of manufacturing firms in the United Kingdom. They have district offices in leading industrial centres, and a number of whole-time or part-time representatives and correspondents abroad. Besides being an organ of information and advice regarding the specific views of manufacturers, the Federation is of assistance in the distribution of commercial intelligence to its members, while its overseas representatives work in contact with the overseas officers of the Department of Overseas Trade.

It does not appear that the separate trade associations have, as a rule, any permanent machinery for the collection of commercial intelligence from overseas, though of course their individual members in many cases have complete organisations of their own. The director or secretary of a trade association may sometimes conduct an investigation of a particular market, but for the regular supply of commercial intelligence the associations look mainly to the Department of Overseas Trade, with which they sometimes collaborate in particular investigations. We are informed, for example, that the Department of Overseas Trade have organised a scheme under

which systematised information regarding the markets for the products of a given trade is obtained periodically in accordance with a questionnaire drawn up in collaboration with the trade association concerned. This service is in addition to the ordinary flow of reports from abroad.

Commercial missions.

In this connection we may refer to the proposal put before us by one or two witnesses that in suitable cases special commercial missions composed of official and trade representatives should visit certain overseas markets with a view of surveying the conditions prevailing therein. Such missions in the past have certainly been of benefit to trade, when the markets to be visited have been carefully selected and the preparatory work efficiently performed. We consider that the question of the desirability of any particular mission should in the first place be very thoroughly investigated in consultation between the Department of Overseas Trade and the representatives of trade and industry, and if decided upon the expense should be equitably divided between public and private funds. We need hardly say that the success of this form of mission depends essentially on the right choice of the individuals to whom it is entrusted.

Status information.

In their evidence before the Committee, the Federation of British Industries laid great stress on the necessity for accurate and speedy status information regarding firms in overseas markets. Existing sources, they said, did not adequately meet the exporters' needs in this direction. The reports of the banks and bank references were useful, but in the generality of cases did not give sufficient information, or information of the type required. The Federation themselves manage a credit information exchange which acts in effect as a "clearing house" for information between members of the Federation. We have gathered from other witnesses that the manufacturer in export trade is often seriously handicapped in judging the risks that he undertakes through the lack of adequate status information. We consider that improvement in this respect can only be brought about through collaboration between the Federation and other associations of manufacturers and traders, the banks, and the various status enquiry bureaux. The general provision of this class of information is not in our opinion a matter for which a government department ought to take responsibility.

(2) Industrial Structure and Combination.

The scale of business enterprise.

The scale of business enterprise, and in particular the growth of combination in industry and trade, were discussed in "Factors in

Industrial and Commercial Efficiency."* Further statements of the position regarding combination and association in particular industries were given in the " Survey of Metal Industries " and " Survey of Textile Industries."

The information before us shows that great differences exist among the several industries as regards the typical size of the business unit. The iron and steel industry contains many relatively large combinations; the electrical manufacturing industry in general, and also the cable making section, consist mainly of large undertakings; the engineering industry includes several very large undertakings side by side with a great number of smaller businesses; the shipbuilding industry consists of numerous independent firms of varying size; and the coal-mining industry likewise exhibits varied organisation, including many independent mines and some large amalgamations, the number of which has increased of late, especially since the coal stoppage of 1926. The cotton industry is distinguished by the number of separate sections of which it consists, and most of these sections are made up of large numbers of independent undertakings, the chief exception being the finishing section, which is largely dominated by combinations. Small scale undertakings are prevalent in nearly all branches of the wool textile industry, and on the whole the unit is distinctly smaller than in the cotton industry. Even in the cotton and wool textile industries, however, there has been a recent tendency to consolidation, though the earlier post-war amalgamations in the cotton industry were not financially successful. The artificial silk industry contains one or two very large undertakings, together with some smaller ones, the number of which is being constantly increased. The chemical industry includes very large combinations, and the shipping industry has also seen the growth of very large companies during recent years.

On the whole, the information available shows a strong tendency, both in this and other industrial countries, for enterprises engaged in production to increase in average size, a tendency which shows no sign of reaching its limit. There is also a tendency for separate productive undertakings to associate themselves with other similar enterprises with a view to regulating output, prices, marketing, or other matters. The same is true to some extent of enterprises engaged in distribution. Organisations of this kind are usually known as " horizontal." There have also been many cases of " vertical " organisations, in which the associated enterprises are not performing similar functions, but are concerned with different branches or stages of the productive process. Such are the combinations in the iron and steel trade which embrace coal and iron ore mines, blast furnaces, steel making plant and rolling mills.

* See memorandum on pp. 67–114 and the Introduction, pp. 3–12.

The first practical question that arises is how far the observed movement towards increased scale of business, and towards association and combination, is economically successful, in the sense that it achieves its avowed object of reducing the costs, improving the services, and increasing the profits of business enterprise. The second question is how far any of the successful results achieved are obtained by methods which are inimical to the general interest and need to be restrained by public action.

"Horizontal" and "vertical" combination.

On the first point it is necessary to distinguish clearly between the "horizontal" and "vertical" principles of growth and combination, of which the motives, objects and conditions of success and failure are very different.

Broadly speaking, an important aim of "horizontal" growth and combination is to achieve the economies of "rationalisation" in the true sense of the term, viz., the elimination of waste and the increase of economic power by such methods as systematic works specialisation, the elimination of inefficient and surplus plant, and in general the full realisation of the advantages of concentrated management and large-scale production, distribution and research. The aims may or may not also include an element of monopolistic control, e.g., through price-fixing, output restriction or marketing agreements.

The prime object of "vertical" organisations is of a different nature. Apart from motives of a purely technical order, the principal aim is to attain in some degree a position of self-sufficiency, and to avoid being dependent on the vicissitudes of the market as regards raw materials or semi-finished goods or at the mercy of a horizontal combination affecting some stage or process of manufacture. In a period of violent fluctuations of supply and prices, like that which immediately followed the war, it was often a great advantage to manufacturers to be able to rely on their own supplies within the ambit of their own business. In ordinary times, however, this advantage may sometimes be offset by the obligation imposed on the finishing sections of the organisation to obtain their supplies from the other sections, without being able to reap the full benefit of market conditions by buying outside on more advantageous terms.

Obviously, the question of the relative weight of the various considerations for and against the vertical extension of any particular business, whether by expansion or combination, is one on which it is not possible to dogmatise, but which has to be solved in each case in the light of all the relevant circumstances, both technical and economic. The evidence before us, however, suggests that the recent results of this type of development have been relatively unsuccessful, and that there seems at present at least to be some reaction against vertical organisation both in Great Britain and in other countries, as compared with the dominant movement towards horizontal extension and combination.

Economic effects of combination.

As was pointed out in a previous volume, "so long as the growth in the scale of business enterprise is the normal result of expansion" under the influence of ordinary economic forces, "it is fairly certain that the development tends on the whole towards higher efficiency and reduced costs."* Of the whole movement towards combination it was observed that "the prevalence and growth of consolidations and terminable agreements, the constant attempts to reconstruct associations which for any reason have broken down, together with the observed tendency (illustrated by the latest combination in the chemical trades) of the parties to partial unions or agreements to replace them by consolidations or cartels of wider scope or closer texture, afford a very strong presumption that the parties directly interested regard combination as an economically effective method of increasing their gains, or at least of defending themselves against 'cut-throat competition.'"† As against this presumption may of course be set the undoubted fact that several of the large consolidations, horizontal, vertical and both, which developed out of or shortly after the war have proved unsuccessful, and have had to reorganise themselves by reducing their capital and in some cases by disposing of businesses which they had acquired. It must, however, be remembered that some of these great concerns were employed on special work during the war and experienced great difficulties in turning over to peace production. No general conclusions can safely be drawn from their experiences and miscalculations, under such wholly exceptional conditions, as to the economic results of large scale operation in itself.

There can be no doubt whatever that such economic advantages as arise from works specialisation are most readily and fully attainable where the unit of business enterprise is large, or where the various undertakings are bound together by a close agreement under which their financial interests are more or less pooled. The more perfect the unification of interest the more completely can this kind of economy be realised. It should, however, be remarked that, in the opinion of a very acute observer, possessing exceptional practical experience in the organisation and administration of combinations, there is "a general tendency in popular discussion to exaggerate the simple economies of straight run standard lines possible through concentration and to under-estimate the costs of bringing them about."‡ Such savings are not usually effected without incurring expense, which in some cases may more than nullify them. Thus, a factory is rarely ready to take over the output of another, or to concentrate on making a few types of articles

* "Factors in Industrial and Commercial Efficiency," p. 4.

† Ibid. p. 9.

‡ Sir Josiah Stamp. Presidential Address to Railway Students Association of London School of Economics.

only, without considerable changes in lay-out; and the necessity of providing in some way for the personnel of displaced factories also adds to the cost of the transformation. The increased facilities for combined research, however, are a very important factor to be taken into account on the other side.

The effects of concentration and combination on the elimination of the most inefficient plant are not altogether simple. There can be no doubt that the operation of free competition is a very slow and costly method for the purpose of securing such elimination. The tenacity of life shown by businesses working at a loss is sometimes extraordinary. Plant and buildings are often highly specialised, and there is a reluctance to incur an almost total loss by dismantling them, while there is a chance that a favourable turn of the market will for a time at least put the business on a profitable basis. But the results of the prolonged competition of inefficient undertakings react on the more efficient, and tend to depress the whole industry; and an operation of cutting out the dead wood may be essential for the speedy restoration of prosperity and the resumption of growth from the more vigorous branches. It seems unquestionable that this operation can often be performed more speedily and "rationally" and with less suffering through the mechanism of consolidation or agreement than by the unaided play of competition. Such a salutary attitude, however, towards the problem of rationalisation is not universal among combinations, which have sometimes maintained, instead of eliminating, surplus and inefficient plant, relying for their profit not on greater efficiency and lower costs, but on the exaction of higher prices from the consumer by the exercise of monopoly power.

It is on this last-mentioned feature of combination that its critics both in Great Britain and still more in America have concentrated attention, sometimes to the exclusion of the very valuable economic results attainable (and often only fully attainable) by some form of combined action.

Progress of "rationalisation" in various countries.

It must be admitted that in Great Britain the process of "rationalisation" has not proceeded so rapidly as in some of the principal competing countries, though the circumstances favouring the process have differed widely in the several countries in question.

In the *United States* all observers agree that, at least in the metal and engineering industries, a conspicuous feature is the readiness which exists to scrap old plant and replace it with new whenever the exchange seems likely to be advantageous. This attitude has been made possible largely as a result of the prosperity which has prevailed in the industries in question during most of the pre-war period and the consequent accumulation of profits and establishment of profit-earning power on which such frequent renewals of machinery have been financed.

In *Germany*, we are told that "the stimulus acquired during inflation of mechanising, renovating and re-equipping has become a habit and a complete change has taken place in the ideas governing the application of new and more efficient mechanical equipment."* Here the cause which mainly facilitated the adoption of the policy described was the depreciation of currency. As is well known, this proceeded so far as to bring about the virtual extinction of mortgage and other fixed charges on industrial undertakings† ; and as it proceeded, it gave unprecedented opportunities and even furnished an overwhelming incentive for the reconstruction, renewal and extension of industrial plant.‡

The course of events while thus facilitating the rehabilitation of German industry was, however, extremely unfavourable to large sections of the population through the destruction of savings and deterioration in the standard of living which it involved ; and its repercussions were also felt by the industrialists after the stabilisation of the currency. One of the features of the crisis which supervened was an acute scarcity of liquid capital in Germany ; but the very seriousness of the situation constituted a compelling force in the direction of further rationalisation, at whatever cost, as offering the most hopeful prospects of rehabilitating the position. The only means of obtaining the capital required for this purpose was by borrowing heavily in the United States and elsewhere at relatively high rates of interest ; and though this process was, no doubt, assisted by the freedom of German industrial plant from mortgage and other fixed charges, in other ways the financial conditions under which the rationalisation of German industry has been continued during recent years have clearly been rendered more difficult by the earlier period of inflation.

In *France*, the latest report of the British Commercial Counsellor in Paris§ records that the French industrial fabric has undergone almost complete renovation or reconstruction and general enlargement since the beginning of the war. The occupation of the northern and eastern industrial areas led to the creation during the war of new undertakings or the enlargement of existing undertakings in other parts of France, and the post-war years have seen not only the recovery of Alsace-Lorraine and the further industrial development of the non-occupied regions, but also the reconstruction of the devastated areas. This reconstruction has resulted in the general re-equipment on modern lines of the majority of the industrial undertakings in those areas, e.g., coal and ore mines, metallurgical,

* Report by the British Commercial Secretary, Berlin, on economic and financial conditions in Germany (1927) ; section on "Metallurgical and Engineering Industries," p. 38.

† At a later date undertakings in certain industries were made subject to debenture charges, in accordance with the Dawes scheme, for the purpose of securing the payment of reparations.

‡ *See* "Survey of Overseas Markets," pp. 103–5.

§ *See also* "Survey of Overseas Markets," pp. 58–9.

engineering and chemical works, and textile establishments. The process was rendered possible by Government grants (amounting to 70 or 80 milliards of francs) as well as by loans raised by the departments and by industrial undertakings. It was also assisted by the depreciation of French currency. This depreciation, combined with the trade prosperity then prevailing, enabled the extensions or fresh enterprises established between 1922 and 1926 to extinguish a considerable portion at least of their capital cost. On the other hand, however, the course of events involved, as in Germany, the destruction of a large part of the accumulated savings of the people, and in this and other ways created conditions of hardship for certain sections of the community.

In the case of *Belgium* the history of the post-war years has been similar in many ways to that in France as regards, for example, the opportunity to reconstruct on the most modern lines industrial undertakings destroyed during the war, and the assistance rendered in this process by the increasing depreciation of the currency between the end of the war and the date of its stabilisation in 1926.*

How does the situation in *Great Britain* compare with that which has been described above? In connection with any such comparison it seems desirable to recall that as has already been pointed out† "efficiency" must be regarded as strictly correlative to "cost." The two terms are, in fact, merely an expression of the conditions of competitive power viewed from two angles, and neglect to realise this fundamental consideration has led many economic observers astray. It has been supposed, for example, that because capital equipment is of great importance to industry, it is necessary and desirable to equip all British industrial undertakings, regardless of cost‡ or market limitations, with the most up-to-date plant; or that because large scale production makes for certain forms of efficiency, all small scale undertakings should be incited or compelled to combine. The history of recent years furnishes many examples of industrial concerns which were misled by the abnormal experience of war conditions into embarking on elaborate schemes of new equipment or amalgamation without due reference to commercial cost and market limitations. It is plain from the information before us that some of the undertakings which have been most "efficiently" equipped in the absolute sense have been the least capable of competing under the conditions which have prevailed during the difficult post-war period, while among the businesses which have best held their own in that period there have been not a few which from a purely technical point of view have been markedly inferior to their less successful competitors.

* *See* "Survey of Overseas Markets," pp. 45–48.

† *See* p. 36.

‡ Reconstruction or extension of plant out of profits or even of capital in the form of ordinary shares may be wholly beneficial from the point of view of cost, while if only possible by incurring mortgage or other debts at a high rate of interest the cost of production may actually be increased.

On the other hand, however, we have pointed out* that many British industries are not absorbing an adequate supply of new capital for essential purposes such as the reconditioning and modernisation of industrial plant, buildings and equipment; and in this connection we have emphasised that the lack of profits and dividend-earning power have contributed substantially to the difficulties experienced by such industries in obtaining capital from the public or advances from the banks. We have also remarked† that the adequate equipment of British industrial works with modern plant and machinery may be obstructed by the conservative habits of mind which prevent many employers from pursuing an energetic policy of renewal of plant, or by the corresponding qualities of mind which lead many workpeople and some Trade Unions to cling tenaciously to obsolete trade customs and lines of demarcation.

Influence of financial conditions.

In so far as the re-equipment of British industry is conditioned by financial circumstances, it is clear that the situation which has prevailed in this country since the war has differed fundamentally from that prevailing in the other countries referred to above. Instead of the prosperity and expansion of demand which has prevailed in several important industries in the United States, many British industries have had to face prolonged depression and a long-continued reduction in demand, which has been all the more serious because in some of the industries concerned productive capacity has been largely increased as a result of war conditions; and the consequence has been a widespread failure to earn profits and inability to build up reserves or even to make sufficient provision for depreciation. As regards the continental countries which have been referred to, it is common knowledge that there has been nothing in this country comparable to the process of re-building and reconstruction of industries which took place under Government auspices in France and in Belgium. It is true that during the war great extensions and improvements in plant were effected in the iron and steel and certain other branches of the metal industries of Great Britain, with encouragement and financial assistance from the Government, but these resulted in only a partial modernisation of the industries concerned; and though the new plant embodied at the time the best technical practice, it is already in some respects out-of-date, as technique has made great strides in the industries in question.‡ As regards the

* Page 50.

† Pages 80–1.

‡ Some assistance in capital reconstruction was also afforded through the operation of the Trade Facilities Acts between 1921 and 1927 (*see* " Factors in Industrial and Commercial Efficiency," pp. 389–91 and 431–5), but this assistance took the form not of grants but merely of guarantees for loans raised by the undertakings concerned, and must be regarded as insignificant when compared with the reconstruction operations financed by the continental Governments referred to.

currency and exchange situation in its effect on reconstruction, the position in this country has also been the reverse of that prevailing in the principal industrial countries of Europe. In those countries the long continued depreciation of the currencies, and their final stabilisation at levels far below those which prevailed during the post-war reconstruction period, resulted in the complete or partial wiping-out of many capital liabilities incurred during the process of reconstruction or earlier, and in the permanent lightening of the real burden of the annual capital charges arising therefrom. In this country, on the other hand, the process of appreciation of currency after the war, which culminated in the restoration in 1925 of the gold standard on its pre-war basis, as well as the rising value of gold itself, have had the opposite effect. As extensions and improvements of British industrial undertakings were effected mainly in the later years of the war and the earlier post-war years, when prices were above the present level, the undertakings concerned are now in a position similar to that produced by over-capitalisation as regards the heavy burden of the fixed charges arising from the capital expended at that time; and this has doubtless been an important factor leading to the inability of many industrial undertakings to accumulate reserves or make provision for depreciation.

It should, of course, be emphasised that the foregoing comparison between the position in this country and that in the continental countries mentioned relates only to certain special aspects of the situation in each case, viz., the extent to which reconstruction and rationalisation of industry has taken place, and the effect of financial conditions in promoting or retarding the process. It has already been indicated that the course of events in the continental countries had its unfavourable aspects; and conversely the financial policy followed in this country, while involving the difficulties to which we have called attention, has been, in our opinion, sound in essentials and beneficial, on balance and in the long run, to the community. It should also be added that, in calling special attention to the causes noted above as contributing to financial weakness in British industries, we do not ignore the fact that financial weakness may equally be brought about by other causes such as indifferent administration; excessive taxation and other public charges, or exceptional conditions favouring foreign competitors as compared with British industrial undertakings.

The possible consequences of financial weakness are far-reaching. As stated in the Memorandum on over-capitalisation published in "Further Factors in Commercial and Industrial Efficiency" (p. 180), they show themselves first on the minds and policy of the men who run the business.

"They have not freedom in making new departures, in taking risks, in undertaking business which will absorb further working capital; they have not the confident self-reliance which success

brings. Moreover, a company which is financially strong can mitigate to some extent the effects of a temporary falling-off in demand by such expedients as making for stock and by taking the opportunity to overhaul its plant. It will also be in a position to make drastic cuts in selling prices, even where this involves an immediate loss, in order to stimulate demand and thus ultimately to spread its overhead costs over a larger output. A weak company may lack the resources to do any of these things. It cannot face an immediate loss in the expectation of a greater ultimate gain. Consequently its power of resistance and recuperative capacity are both diminished."

The building up of reserves and provision of adequate depreciation are vital in connection with the maintenance of plant equipment and administration at a high level of efficiency, especially in industries whose technique is in process of rapid development. It is not in most cases practicable or economical for an existing works to replace all its existing plant with the very latest and technically most efficient plant immediately it has been put on the market. The new plant may be only slightly more serviceable than the old, and the latter (suitably written down in the balance sheet) may continue to be a valuable asset. Yet there is always the possibility that a new invention may represent such a great step forward in technique as to render existing plant unable to compete and, therefore, to necessitate its replacement before it is worn out. It is consequently of the utmost importance that the industry should be financially strong enough to re-equip itself with the most modern plant at any time when it is commercially advisable to do so. Old plant should be retained only as a result of calculation and choice, not under the constraint of financial weakness.

If this country is to maintain its competitive position, it is clear that the productive equipment of British industry must be kept at a high level of efficiency in relation to its overseas competitors, and the foregoing analysis indicates that for this purpose the recovery and maintenance of financial strength is all-important.

Financial weakness always tends to constitute a vicious circle, for an undertaking or industry whose earnings are insufficient to provide for depreciation and reserves finds great difficulty in keeping its equipment up to date; and the more antiquated and inefficient becomes its equipment, the greater becomes the financial weakness and the smaller becomes the possibility of obtaining the fresh supplies of capital which may be the only means of restoring profit-earning power. In some cases drastic writing down of capital may be necessary for the salvation of the undertaking; but in other cases, especially where technical efficiency has been seriously impaired or where the undertaking is inefficiently managed, financial reorganisation alone may be insufficient to set the undertaking on its feet, and the only remedy may lie in amalgamation with a stronger undertaking, followed by concentration of the business in the more efficient plant.

The foregoing remarks have an important application to the existing position in some important British industries, and we regard the problem of the re-conditioning and re-equipment of such industries as iron and steel, coal, and coke as being in fact one of the most serious of those which have still to be solved.

The iron and steel industry.

The situation in the above-cited industries was described in our "Survey of Metal Industries." As there shown, British practice in the manufacture of iron and steel tended over a period of years before the war to fall behind continental practice. The problem of keeping up to date was no doubt in some respects more difficult in a country where the iron and steel industry had grown to full stature in an earlier generation than in countries which were establishing the industry for the first time on a large scale, since the latter had not to contemplate the demolition of existing plant and naturally built their new plant to the most modern designs. On the other hand, British undertakings which had built up adequate reserve funds during earlier years should have had no serious difficulty in financing the renewal of their plant.

As explained above, the war-time extensions and improvements in the industry did not completely modernise it, and, owing to the extensive re-construction effected in the iron and steel plants of Germany and other continental countries, the average British practice probably remained behind the average continental practice. Much has been done by British iron and steel manufacturers since the war to improve their practice, and the industry is undoubtedly far more efficient than it was ten years ago. But it is doubtful whether British practice has improved as rapidly since the close of the war as that of some of our principal competitors. Hence the need for modernising British iron and steel plant has become more pressing.

The very great increase in world productive capacity which took place during and immediately after the war was unfortunately not balanced by a corresponding growth of demand, with the result that the industry has been unremunerative. Although, even during the depression, there has been a not inconsiderable expenditure of capital on improvements in this country where this appeared likely to be clearly and immediately remunerative, the companies have not attempted (and doubtless in most cases have not possessed the credit) to carry out thorough reconstruction. As shown in our "Survey of Metal Industries" (pp. 43–5), many of them are already heavily burdened by interest charges on debentures raised since the end of the war.

No doubt the economic condition of the industry may be expected to improve as the demand for steel recovers, and as the price of foreign steel rises to the level of British steel. If this happens the prospect

of a reasonable profit may be expected to make conditions more favourable for the investment of capital in the re-equipment of the industry. It is obvious, however, that in many undertakings drastic financial reorganisation will be required for the restoration of borrowing power. In the case of some of the less efficient undertakings, moreover, amalgamation with stronger units or groups may be essential, production being concentrated in the more efficient plants and the sales organisation and general administration being strengthened.*

The cotton industry.

Another British industry where important changes of structure in the direction of combination or association appear to be imminent with a view to the restoration of prosperity is the cotton industry, and particularly the section engaged in spinning American cotton. The position in that industry has been fully discussed in our " Survey of Textile Industries " (pp. 36–38 and 123–128), and in the light of the situation there described the problem of " rationalisation " appears to be concerned not so much with the modernisation of plant and machinery on a large scale as with the attainment of a higher degree of specialisation and co-ordination of production (involving the elimination of surplus and inefficient plant), and also the removal of the financial weakness which has resulted to a large extent from over-capitalisation. The achievement of these objects might be largely secured, or at least facilitated, by means of suitable combinations or agreements on horizontal lines. The case is not so clear with regard to vertical combinations, which have never had more than a very limited place in the structure of the cotton trade. While however, it may be true, as we pointed out in our " Survey of Textile Industries " (p. 50), that the successive stages of spinning, weaving, finishing and marketing are as a rule best carried on separately, there can be no doubt that the separation carries with it the possibility of incidental disadvantages which it is desirable to reduce to the smallest possible compass.

Other industries.

The problems confronting the cotton industry have for some time been under consideration of a Joint Committee of Cotton Trade Organisations with a view to joint action. Similar problems exist in the worsted section of the wool textile industry which (unlike the woollen section but like the cotton industry) is mainly carried on in separate compartments. While existing organisations represent the industry satisfactorily in its external relations, there appears to be no organisation for dealing with the relations of the different sections

* Much of what has been said above regarding iron and steel applies also to the closely related coking oven industry, which compares unfavourably with the continental industry in plant and organisation.

among themselves. We think that the efficiency and structure of the industry might be improved by the establishment of a committee representing all sections of the industry, including employers and employed.

Without referring in particular to the position in other industries, it ought to be noted that, while in some of these (e.g., the chemical industry and electrical engineering) the process of amalgamation and rationalisation has already been carried far, much remains to be done in the case of many industries such as coal mining, certain branches of engineering and others, before the position can be regarded as satisfactory.

Consolidations and terminable agreements.

It has been pointed out in a previous volume* that "it is generally much more difficult to realise the full economies of unification by means of a terminable association than by a complete merger," inasmuch as the continuance of the separate financial interests of the different undertakings may result in "considerable resistance to the enforcement of measures for reducing costs and eliminating waste, which, though to the interest of the combination as a whole, may place some of the constituent undertakings in an unfavourable position for resuming competition in the event of withdrawal from the association or termination of the agreement."

For this reason consolidations offer a much more effective means of "rationalisation" than terminable agreements, and are on the whole more favourable to the interest of the general consumer. Against these advantages, however, is to be set the greater elasticity of terminable agreements, which are capable of progressive modification in the light of experience gained, and which are relatively free from some of the dangers of over-centralisation. Very often a "cartel" is the first step towards a consolidation.

The Co-operative Movement.

The co-operative movement with its 1,300 retail societies and two great wholesale societies offers an example of industrial and commercial structure which, though widely different in aim and character from the ordinary combination, is of great social interest, as an effort to secure some of the advantages of large-scale purchase and production by the federation of a large number of independent organisations of consumers. A description of the co-operative movement was included in a previous volume,† but, as it is mainly concerned with the organisation and supply of the home market, its experience throws little direct light on the relation between combination, costs and efficiency in the great exporting trades. The chief

* "Factors in Industrial and Commercial Efficiency," p. 7.

† "Factors in Industrial and Commercial Efficiency," pp. 15–18 and 114–125.

interest of the co-operative movement in relation to the present inquiry lies in other directions, e.g., the reduction of the cost of living and the improvement of the standard of life of the people, the accumulation of capital through encouragement of thrift and of investment of savings, and lastly the maintenance of a general stabilising influence in the State.

Public attitude to combination.

The idea of large-scale organisation and joint working was urged on British industry by a number of committees which investigated the situation during the latter years of the war,* and the action of Parliament seems, on the whole, to have been favourable to amalgamation and large-scale operation during the post-war period. It is true that during the period of very high prices soon after the war, when the Profiteering Acts were in operation, there was a strong tendency to view with suspicion amalgamations and agreements. It is evident, however, that in the post-war period there has been a much more general recognition of the economic importance of large-scale enterprise, especially for the supply of public utilities, and it cannot be doubted that war experience played a large part in the process of the education of the public. For example, the provisions of the Electricity Supply Act, 1919, were intended to promote combination and large-scale operation in the case of electricity supply, and when progress in this direction was unsatisfactory a further Act was passed in 1926 making further provision for concentration.† The London Electricity Acts of 1925 withdrew previous statutory restrictions on the amalgamation of the London companies, at the same time imposing a sliding scale of prices on the companies concerned. The Gas Regulation Act of 1920 empowered the Board of Trade to make orders for amalgamating gas undertakings. The Railways Act of 1921 brought about the amalgamation of the railways into four great groups, with safeguards for the public in regard to railway rates and a prohibition of further combination without sanction. The principal Joint Stock Banks were amalgamated into five great companies with official concurrence. The Royal Commission on the Coal Industry (1925) recommended amalgamation of mines and joint selling arrangements,‡ and the Mining Industry Act, 1926, contained provisions for facilitating amalgamations of colliery undertakings. Finally, the Finance Act of 1927 and the Companies Act of 1928 contained provisions which tend to encourage the amalgamation of companies under certain conditions.

The trade evidence taken by the Committee was on balance favourable to combinations, the beneficial effects of which on the efficiency of production and conditions of employment were generally

* "Factors in Industrial and Commercial Efficiency," pp. 89–90.
† "Survey of Metal Industries," pp. 348–9.
‡ "Survey of Metal Industries," pp. 430–433 and 448.

admitted. Witnesses representing the cotton and wool textile industries complained of the prejudicial effect on their industries of the policy followed as regards charges by the combinations in the finishing sections,* but there was no agreement among them as to whether any and, if so, what, remedial action should be taken. Some of them favoured the setting up of a Tribunal with power to prevent genuine misuse of monopolies without interfering with the principle of free and uncontrolled enterprise. Others expressed the fear that the remedy of Government surveillance might be worse than the disease. Our impression is that on the whole they preferred to rely on trade negotiation rather than on Government action for a remedy for their grievances, and we understand that since their evidence was given a promising step has been taken by the establishment of joint machinery for consultation in the cotton trade.

Means of control.

The advocates of some form of restraining legislation, designed to deter combinations and cartels from abusing their position to the detriment of the public or of other trades, differ greatly among themselves as to the precise nature of the remedy proposed. They practically all agree, however, in putting publicity in the forefront, and some of them limit their recommendations to the enforcement of publicity, which they believe would be an effective deterrent.

As to the kind of publicity demanded we again find great diversity, but broadly all schemes which we have examined fall under two main categories, (1) those which propose that further statutory requirements should be imposed on all companies, or (alternatively) on all companies of a certain class or magnitude, with regard to the particulars which they are to disclose in respect of their business transactions; (2) those which propose to empower some Government Department or public tribunal, on being satisfied that there is a *prima facie* case of abuse, to hold an inquiry and to require the disclosure of all relevant data for that purpose. As regards the former category of schemes, it will be remembered that the Departmental Committee which recently considered the amendment of the Companies Acts made certain recommendations for extending the information which public companies are required by law to file,† and these recommendations have in substance been embodied in the amending Act passed in 1928. It must, however, be kept in mind that the Companies Acts deal primarily with the relations between a company and its shareholders and creditors, and we doubt if any amendment of the particulars which a company is required to furnish in order that those financially interested may know how they stand could be stretched to cover the class of information which would be necessary in order to determine whether the company is exacting an undue toll from the public by the exercise of monopoly powers.

* " Survey of Textile Industries," pp. 43–50, 179 and 215.

† See " Factors in Industrial and Commercial Efficiency," pp. 9 and 132–4.

We have noted with interest a proposal, which, however, was not put before us in evidence, to distinguish a new class of undertakings (to be called " Public Corporations ") from ordinary limited companies, and to impose on the former much more onerous conditions, both as to publicity and other matters, than are imposed on companies in general. The suggestion has taken different forms, but in its latest shape it proposes to give the Board of Trade a discretion to require a company to register as a " Public Corporation " if its balance sheet assets exceed £1,000,000 and it controls directly or indirectly more than half the output or marketing of a product within Great Britain. We have considered the possibility and desirability of giving effect to this proposal, but we gravely doubt the advisability of giving any such discretion to a Government Department; and it also appears to us that any attempt to classify companies for the purpose of publicity on the basis of such criteria as their capital assets and the extent of their control of output or sale would be bound to lead to serious anomalies and to give rise to evasion. It appears to us that the magnitude of the transactions of a company is not the right basis for discrimination in respect of its obligations in the matter of publicity, but that, if there is to be a demand for further information in order to safeguard the public against monopolistic practices, the right basis for such a demand is the establishment of a *prima facie* case that such abuse has in fact occurred. Once such a *prima facie* case has been established, any powers of requiring information with which it may be thought expedient to clothe a Government Department or tribunal ought to be capable of being exercised irrespective of the magnitude of the company's assets or sales. We need hardly observe that undertakings with capital assets far below £1,000,000 are capable in certain circumstances of exercising monopolistic control over a wide field of production, through controlling the output or sale of some pivotal product, or in other ways.

It will be seen from these observations that, if choice has to be made between the above two methods of publicity, we should strongly prefer that which would vest in an appropriate public authority the power to investigate complaints of abuse of monopoly, with the right to require the production of all relevant data for the purpose of arriving at a conclusion. The reports of such investigations would naturally be published, but safeguards would be necessary to preserve the confidential nature of certain classes of information the publication of which might be injurious to the carrying on of legitimate business.

As to what further step, if any, ought to be taken beyond publicity, there is no consensus of opinion, and we infer from this that any proposal to enable a public authority or tribunal to make an Order rectifying any abuses that may be disclosed would be unlikely to meet with general acceptance. For such a power to be

properly and effectively exercised it would be necessary to give the Tribunal power at least to determine maximum prices and to interfere with the conduct of business in other ways, which would inevitably cause great anxiety and uncertainty, without, in the judgment of most of our members, being likely to conduce to the immediate object of our inquiry, viz., the recovery and extension of British trade. In this connection the experience of the working of the Federal Trade Commission in the United States is instructive. On the other hand a minority of our members feel that the danger of abuse of monopoly by combinations in the future is so great that it has become, or may become, necessary to clothe an administrative or judicial tribunal with compulsory power to restrain such abuses, even at the risk of having in very exceptional cases to take responsibility for the control of the enterprises affected.

We certainly could not recommend the enactment of any such measures for the suppression of combination as have been attempted, with very doubtful success, during the past forty years by the Anti-Trust laws of the United States. A sketch of these measures was given in "Factors in Industrial and Commercial Efficiency" (pp. 10–12 and 103–9); and we have nothing to add to that account.

We find it difficult to decide whether or not on balance it is advisable to embark on any immediate legislation for the purpose of dealing with combinations. We cannot conceal from ourselves the danger that a Bill, even if carefully restricted and safeguarded in its scope, might easily be so changed in Committee as to become either a formidable impediment to industrial development, or alternatively a dead letter.

The question whether or not on balance legislation of the kind outlined above is immediately desirable will probably be answered differently by different persons according to their general attitude towards combinations and agreements. Those who regard such forms of industrial organisation as inherently noxious, from the point of view of the general public, will of course welcome any opportunity of investigation, as a step towards control or even suppression. This attitude was once very commonly met with, but so far as we can judge it is a form of opinion which, in the light of more mature experience, is rapidly becoming obsolete, and it finds no echo among the members of this Committee.

At the other end of the scale are those who look on the growth of the business unit and the development of combination as marking a necessary and inevitable stage in the progress towards eventual nationalisation. Those who sympathise with this point of view will probably draw the conclusion that it would be contrary to the general interest to put any obstacles in the way of combination, by imposing additional obligations or disabilities beyond the general measures of public control which should be applied to all industrial undertakings.

Lastly, there is the intermediate attitude of those who, in agreement with the conclusion of the Geneva Economic Conference, look upon the growth of combinations and cartels as a phenomenon of more limited scope and prospects than is popularly conceived, but nevertheless as one which, within its limits, is capable of yielding valuable results, and which should, therefore, be encouraged, subject always to constant vigilance to avoid abuse. Those who take this view hold strongly that, in spite of the observed tendency towards amalgamation and large-scale operation in most of the industries of this country, there is a permanent and important field of usefulness for the small and medium sized business side by side with the giant concerns, partly in meeting a great portion of the current demand of consumers, and partly in co-operating with the larger undertakings and thus bringing special skill, experience and resources to bear on the carrying out of large-scale operations. It has been emphasised elsewhere in our volumes that an essential characteristic of British industry, if it is to meet the changing conditions of overseas markets, must continue to be specialisation and adaptability and the production of articles of the highest qualities, and for these purposes the smaller firm can and does play an important part. It is, therefore, neither to be desired nor expected that the expansion of the scale of business enterprise should become universal, and that the smaller firms should be all absorbed or displaced. To discover the exact point of " maximum advantage " in any given industry, i.e., the point at which further concentration or the reverse will lead to no additional benefit, is obviously a matter of fine business appreciation and judgment in each case.

On the whole, and on balance, we feel that, in the circumstances of the present industrial situation, the case for immediate legislation for the restraint of such abuses as may result from combinations cannot be said to be an urgent one. Should, however, undesirable features develop in the future to the detriment of the general public, we recommend that any action by the State by way of inquiry and publicity should be on the lines already indicated.

We think, however, that the Board of Trade should include among its general duties the watching of the movement towards consolidation and agreement in industry, and the continuous collection of data with regard to various forms of combination. The information on this subject which has been supplied to us by the Board of Trade has been invaluable to us for the purpose of this inquiry, and we have reason to know that it was also of great value to the Preparatory Committee for the Geneva Economic Conference. We are aware that without special compulsory powers the Board would not be able to conduct a running investigation of the operations of each combination. It is not, however, an intensive investigation of this kind that we have in mind, but rather an extensive survey of the field of combinations and agreements with a view to keeping up to

date the information already collected, and noting any important changes and developments. Should the Board find that they are hampered in this inquiry by refusal to supply the necessary information, such refusals should be mentioned in the periodical reports to Parliament which we think that the Board should make on this subject.

We may add that the special questions of Banking, Railway and Shipping Combinations have already been dealt with in other sections of this Report.*

Organisation of Trade Associations.

Before taking leave of the subject of industrial structure we think it necessary to refer briefly to the position of trade Associations as distinct from combinations. This matter is of special importance in view of the great variety of duties which, under our recommendations, these bodies would be called upon to undertake.

There are few sections of the present Report which do not contain important proposals the adoption of which would throw new responsibilities on existing trade Associations, or on joint trade committees created *ad hoc*, whether to act as organs for the actual carrying out of our recommendations, or as the authoritative mouthpieces of industrial and commercial opinion with reference to matters arising thereunder, or as the authorised means of negotiating with public authorities on behalf of special trade interests, or as the medium through which the industrial and commercial community may be systematically kept abreast of the latest results of research and inquiry and encouraged to take practical advantage thereof. We are not so much concerned with regard to the functions of industrial organisations in determining the conditions of employment, since in these matters the existing machinery for joint consultation and negotiation, though doubtless imperfect, is far more complete and effective than the arrangements for dealing with matters of trade interest other than industrial relations.

We received a large amount of valuable evidence from trade Associations, and we are fully aware that several of them are admirably organised, adequately representative, and efficiently staffed. Associations of this type should find no insuperable difficulty in strengthening their existing machinery so as to cope with the additional duties which would be cast on them by our recommendations. But such well-equipped Associations are, we fear, only a minority, and the able trade representatives who gave evidence before us would be the first to admit that the financial strength of their organisations, and the support they receive from the trade, and even from their own members, are often very much below what is needed for the efficient carrying out of their present duties,

* See pp. 54, 71–3, and 60–3 above.

to say nothing of any new responsibilities. We feel that this weakness of trade organisation is a matter of such vital concern as to justify our laying particular stress upon it in this Report. Many times during the course of our inquiry we have turned with something like envy to the vastly more complete machinery of the Chambers of Commerce of Germany or France, where to all intents and purposes membership and contribution are compulsory. We have considered whether some analogous status could with advantage be conferred on certain types of industrial and commercial associations in Great Britain, but we feel that there would be great danger that the introduction of compulsion as regards membership of voluntary associations, accompanied as it would certainly be by some measure of official control, would tend to hamper their freedom and to undermine their independence, and thus to impair their usefulness as representative organs of trade opinion. It therefore appears to us highly desirable that all trade associations and Chambers of Commerce, irrespective of their attitude towards any or all of our broad recommendations on matters of policy, should forthwith take into consideration the duties and functions proposed to be entrusted to them under the various sections of this Report, and determine the necessary steps to be taken to fit their organisations in all respects to undertake and to fulfil the proposed responsibilities.

We believe that a careful study of this Report cannot fail to bring home to the minds of members of the industrial and commercial community the absolute necessity of better organisation, and that the present may, therefore, be a psychological moment when the needful additional support can be secured with relative ease. We earnestly hope that this will prove to be the case.

(3) Standardisation.

Value of standardisation and simplification.

The present position and recent tendencies as regards the standardisation and simplification of industrial processes and products were fully described in an earlier Volume,* and it is not proposed to recapitulate the detailed information given there. The great economies that may in many cases be realised from a judicious agreement within an industry to fix standard types of size, pattern, specification or other characteristic, and the reduction of waste by the elimination of superfluous types, are so obvious and important that it is clear that further progress along these lines may, if judiciously pursued, result in a substantial reduction in the cost of production of many classes of articles, especially those which are manufactured on a large scale. In the volume above referred to, an account was given of the constitution and work of the principal agencies concerned in industrial standardisation, of the results which they have achieved,

* "Factors in Industrial and Commercial Efficiency." Introduction, pp. 32–36; Chapter III, pp. 266–303.

and the difficulties with which they have been confronted. This account is on the whole confirmed by the evidence which we have received from trade associations.

Extent.

While there is a wide and growing recognition of the economic benefits to be realised from judicious standardisation and simplification, the different industries vary very greatly in the extent to which they have been able, or have thought themselves able, to apply standardisation to their actual practice. As might be expected, the engineering and kindred trades lead the way in this matter, and there was general appreciation of the value of the work of the British Engineering Standards Association. As regards other industries, the textile trades have made very little use of standardisation in its application to tissues and patterns, and the general feeling in those trades is that wide variety and constant change are so absolutely essential that standardisation can have but a relatively limited scope in relation to these products. Where, as in the case of the Co-operative Wholesale Society, there is a large and practically guaranteed home demand, standardisation of woollen cloth has, according to the evidence, been introduced with satisfactory results. But generally speaking the textile industries must keep their eye mainly on the conditions of overseas markets with their continual demand for novelty and variety.

Some industries (e.g., motor and motor-cycle manufacture) have found it possible to secure economies by standardising certain parts, thus producing interchangeability and largely reducing traders' stocks, while on the other hand they regard the preservation of individuality of design as of the highest importance to the trade as carried on in Great Britain. The light castings industry has found it comparatively simple to reduce the types of baths to six, but has encountered difficulties in simplifying the sizes of pipes. The above are only a few illustrations selected from the general mass of evidence. We only know of one case in which material standardisation can be enforced by Act of Parliament, i.e., the Railways, which under the Act of 1921 may be required " to conform gradually to measures of general standardisation of ways, plant and equipment." In a few cases (e.g., cables) some progress has been made in international standardisation, but generally speaking the trades are mainly concerned with arriving at common standards within Great Britain, or at most within the British Empire. In this connection it may be observed that the movement for Imperial standardisation has received a considerable impetus from the discussions at the Imperial Conference of 1926.

Possible dangers.

All the information in our possession supports the warning given in our previous volume of the possible dangers that may result in certain cases from excessive or misdirected standardisation. Put

briefly these dangers are (1) the premature crystallisation of existing practice with the consequent obstruction to further progressive development, and (2) the possible conflict between the monotony and rigidity of type resulting from "simplification," and the variety, flexibility and adaptability of British products to meet local and changing needs, which are among the essential conditions for the recovery and maintenance of our overseas trade.

With regard to the former of these two dangers, viz., the possibility that standardisation may ultimately retard development, we desire to confirm the view we have already expressed,* that this danger is mainly to be apprehended if the authority dealing with standardisation be unduly dependent on the trades concerned, and especially if its financial needs put it at the mercy of sectional interests which may withdraw their support. In such circumstances there may be a real danger that a branch of trade which has obtained through the standardising organisation a valuable specification may obstruct with energy, and possibly with success, the establishment of standards for some competing process or article. The remedy for this danger is that the standardising authority, while keeping closely in touch with the various trades and availing itself to the full of their co-operation in all stages of its work, should be financially independent of any sectional interests and strong enough to hold the balance evenly between them. If this condition be fulfilled we do not doubt that the public interest in preventing stagnation and keeping open the possibility of further developments can be adequately protected. We do not recommend that the independence of the standardising authority in relation to trade interests should be secured by placing it under the control of a Government Department, since such a status would, in our opinion, be incompatible with the necessary freedom of action and flexibility of methods, and would also involve the Government in undesirable responsibility for the details of trade standards and specifications. So far as we are able to judge, such a body as the British Engineering Standards Association, with its scope widened so far as necessary, and its financial basis rendered more stable, is quite capable of developing its existing work so as to cover what is at present required in the way of standardisation of measurements, processes and materials. The simplification of types of finished products, which is work of a somewhat different nature and requiring different methods and technique, is discussed separately below.

British Engineering Standards Association.

The constitution and work of the British Engineering Standards Association is the subject of a special memorandum in the Chapter on Standardisation in "Factors in Industrial and Commercial Efficiency." We take this opportunity of expressing our cordial

* "Factors in Industrial and Commercial Efficiency," p. 34.

appreciation of the valuable work that is being performed by the Association and its 500 Committees in the interests of British trade and industry. A weak spot in our judgment is the excessive dependence on trade support. Though most of the work, especially the committee work, is unpaid, the present annual expenses of the Association amount to over £21,000 a year. To this expenditure the annual contribution of H.M. Government is at present 100 guineas, and contributions of £500 a year are also made by the Government of India and the Crown Agents for the Colonies. There are other receipts from fees for special work and the sale of publications, but the bulk of the income is derived from subscriptions from trade organisations. We should be sorry to make any suggestion that would have the effect of diminishing the support or interest of the trades, but for reasons given above, and also with a view of developing the work, we think that the income from independent sources ought to be very much more substantial than at present. We therefore recommend that H.M. Government should make an annual contribution equal to the sum subscribed by the trades, subject to a maximum of (say) £10,000.

With a view of affording a direct benefit to overseas trade, it should be stipulated as a condition of the grant that the work of translating British standard specifications into foreign languages, and organising local British Engineering Standards Committees in overseas countries, which was begun in 1917 with the aid of a special government grant, and which has been allowed to lapse with the exhaustion of this fund, should be resumed and energetically pursued.* It should also be stipulated that the Association should strengthen and develop its connections with standardising bodies in other parts of the Empire with a view to the advancement of Imperial standardisation, in respect of which we are convinced that there is a wide field for improvement.

The question of any modification in the constitution of the Association which might be necessitated by the increased government support could appropriately be dealt with when the Association's pending application for a Royal Charter is considered. We do not think it necessary to make any definite recommendations on this subject, beyond expressing a hope that care will be taken not to impose any requirements that will unduly fetter or restrict the Association's freedom and initiative.

Simplification.

Passing to the allied but separate question of the simplification of industrial products, we find ourselves in a somewhat different region of ideas. The main object of the simplification of finished products is the same as that of the standardisation of processes and materials,

* "Factors in Industrial and Commercial Efficiency," p. 291.

viz; the saving of cost by the elimination of waste; and the method in both cases consists in fixing by agreement certain "standard" types and discarding all other types. But the procedure in the two cases and the relative weight of different classes of considerations are materially different. To "simplify" finished products, by reducing a large number of manufacturers' types or models to a smaller number of standard types or models, generally involves a greater element of what may be termed industrial diplomacy, and a smaller element of scientific experiment and research, than the standardisation of parts, processes or materials. Less reliance can usually be placed on the trade itself taking the initiative and carrying through the procedure of simplification, without the aid of external stimulus and guidance, except of course as part of the economic policy of a cartel or combination, in which case the public interest is unlikely to be the first consideration. Even in the United States, where the field for economies through simplification is probably much greater than in Great Britain, the evidence before us shews that the manufacturers found government initiative and assistance necessary to enable them to agree on effective action.

State action to encourage simplification.

It has for some years past been the practice of the United States Department of Commerce and Industry to take the initiative in promoting voluntary trade agreements for the purpose of securing economy of costs by means of simplification, and the Reports of the Department shew that very considerable progress has been made by this means. Within the Bureau of Standards, which is under the control of the Department of Commerce, there has been established since 1922 a "Division of Simplified Practice" the procedure and work of which are described in the previous volume to which reference has already been made.* "The Government Department does not attempt to determine or even suggest the simplifications which an industry should adopt. It merely brings together all the interests, and by printing a report of the proceedings, publishing the recommendations of the Conference, and registering the simplified practice schedule, gives assistance in carrying out such agreement as may be reached."

It has frequently been suggested that in this country the Board of Trade should take similar action, and it seems to us that there is here a promising field for the promotion of economy, though for reasons given below it is a much more restricted field than that presented by the industry of the United States, and the difficulty of the task and the precautions to be observed are very much greater.

The United States presents an immense homogeneous home market for the products of standardised mass production, shielded

* "Factors in Industrial and Commercial Efficiency," p. 299. See also Introduction, p. 35.

from the competition of imported articles of greater variety and attractiveness by the barrier of a tariff, which, though easily surmounted by "luxury products," is practically prohibitive in the case of many articles of common use. For this reason the American consumers are a relatively docile body as compared with consumers in this country, and it is to be remembered that the home trade is infinitely more important to American manufacture than the export trade. Add to this the fact mentioned in our previous volume* that "America with its immense resources has always been pre-eminently the country of industrial waste," and it will be realised that both the margin of possible saving by simplification, and the ease with which the results of such action can be imposed on the consuming public are much greater than in this country. Consequently the incentive to industries to respond actively to the efforts of the Government is much greater in the United States than in Great Britain, where a great percentage of trade is done with a number of overseas markets, each requiring special study and adaptation, and where there is nothing to prevent the competition of foreign articles in the home market.

We do not mention these difficulties in order to discourage Government action, but only as a salutary caution against unreasonable expectations which are only destined to cause disappointment. We note with satisfaction that, since the publication of our previous volume in which we discussed the subject, action has been taken by the Board of Trade in constituting a Central Committee for Standardisation and Simplification presided over by the Parliamentary Secretary of the Board and including representatives of industry and commerce. We understand that conferences of certain trades have already been called to discuss the possibilities of simplification. We have followed these initial proceedings with sympathetic interest, and we hope that the conferences will bear fruit and will in due course be followed by others.

Possible dangers of excessive simplification.

It is with the aim of contributing to the success of the movement that we desire to emphasise the importance that in all the proceedings the deep differences between British and American conditions as regards simplification shall never be forgotten. Quality, variety and adaptability are among the most important characteristics which give strength to British export trade. The preservation of these characteristics is by no means incompatible with judicious simplification, but they can only be preserved if the greatest care is taken, when reducing the number of types, to ensure that those selected for survival shall be the best types compatible with the conditions imposed by cost and fitness. Otherwise simplification may prove a retrograde step, tending in the long run to check development and

* "Factors in Industrial and Commercial Efficiency," p. 35.

restrict competitive power. In particular this is true of the whole range of artistic products, using the term in the broadest sense as denoting articles which are sold mainly by their appearance. Rightly guided, simplification may promote beauty of production (e.g., by the elimination of articles loaded with misplaced ornament); but according to all experience it is unsafe to trust that the trades if left to themselves will always give due weight to this consideration. In the United States it is doubtful if it has received any substantial attention, the tendency being rather to base simplification on statistics of sales; but for reasons given above it would be unsafe to found action in this country entirely on American example. We consider therefore that whenever the Board of Trade take part in promoting the simplification of any class of articles in which considerations of form, colour, texture or other quality of appearance are of importance they should invariably invoke the assistance of some expert assessor who is a recognised authority on the design of such articles. We lay stress on this point because, being the most difficult and the least obvious, it is the most likely to be neglected. Data as to cost and sales are easily obtainable, and fitness for function can be readily judged by technical experts. But attractiveness of appearance is essentially a matter of taste and appreciation, which can be brought to no definite test, and on which untrained opinion is unlikely to agree. The only thing that can be done is to secure that some recognised expert shall have at least an advisory voice in the process of simplification.

The only other caution that we should like to express is against undue insistence on rigid conformity to type. In the standardisation of component parts, where exact interchangeability is essential, it is of course necessary to insist on precise compliance with the measurements fixed. In the case however of the simplification of types of articles of household use (e.g., crockery or hollow-ware) it is unnecessary to enforce exact uniformity, and it is most desirable to preserve a margin of deviation for the play of individual fancy.

Attitude of trades to standardisation and simplification.

Our last recommendation with regard to standardisation and simplification is addressed to the trades themselves—both those whose products and processes are the subject of standardisation and the users of these products as materials for further manufacture. It was indicated in a previous volume* that some of the principal trades concerned have as yet shewn far less responsive interest in the efforts made to promote standardisation than is reasonably to be expected from them on any just and far-sighted view of their own interests. Partly this want of interest is ascribed to their relative lack of that technical training which is said to make German manufacturers "take far more interest in industrial standardisation

* "Factors in Industrial and Commercial Efficiency," p. 36.

than the generality of firms in this country."* Partly it is due to conservatism on the part of buyers and consultants. Partly, no doubt, what appears to the outside observer to be unaccountable apathy is really due to instinctive appreciation of the factors which in the case of certain British trades limit the economic advantages to be derived from standardisation. But to whatever causes may be due this want of continuous interest and support, it cannot be too strongly emphasised that in its absence no efforts by Government or by voluntary organisations can have any permanent success. Like so many other subjects of intimate concern to industry, the question of the right lines, methods and limits of standardisation as applied to each trade ought to be the object of intensive and systematic study and discussion on the part of the various trade associations.

(4) Education as a Factor in Efficiency.

Aspects considered.

It is neither necessary nor possible within the scope and compass of the present Report to attempt a general survey of the field of public education. We have naturally confined our attention to those aspects of educational problems which have a direct bearing on the subject matter of our reference, i.e., we have regarded education as a factor in industrial and commercial efficiency. We are of course well aware that preparation for earning a livelihood is not the sole nor even the principal object of education, but we must leave to others who are better equipped for the purpose the discussion of educational principles in their widest application, and limit ourselves to the consideration of the problem from the point of view of the needs and interests of industry and trade.

The principal data available with regard to the existing provision of educational facilities of various kinds and grades to meet the needs of industry and trade will be found assembled and summarised in our volume entitled " Factors in Industrial and Commercial Efficiency."† Our consideration of the subject has been based on these data, on the evidence we have taken, and on the published results of the inquiries into various aspects of education in relation to industry which have been carried out while we have been sitting by the four other Committees referred to below.

In 1925 a special committee, of which one of our number was a member, was established by the President of the Board of Education and the Minister of Labour, under the chairmanship of Mr. D. O. Malcolm, to inquire into and advise upon the public system of education in England and Wales in relation to the requirements of trade and industry, with particular reference to the adequacy

* " Factors in Industrial and Commercial Efficiency," p. 287.
† pp. 160–261. See also the Introduction to that volume, pp. 23–28.

of the arrangements for enabling young persons to enter into and retain suitable employment. Another committee, with an identical reference, was simultaneously established, under the chairmanship of Lord Salvesen, to deal with the same problem in respect of Scotland. Each of these Committees published an interim Report in 1926 and a final Report in 1928. We have maintained the most cordial relations throughout with these committees, and we were glad to make available to them such trade evidence as we had received, before the date of their appointment, bearing on the subject of their inquiries. From that time, in order to avoid duplication, we ceased to invite fresh evidence on the matters more particularly referred to in their terms of reference, though we continued to explore the general problems of technical education.

A third committee of an unofficial character (originally presided over by the late Lord Emmott) made inquiries and published a report in 1927 on the relationship of technical education to other forms of education and to industry and commerce.

Lastly the Consultative Committee of the Board of Education, under the chairmanship of Sir Henry Hadow, issued in 1926 a comprehensive report on the Education of the Adolescent, which, while it covers much ground that is outside our terms of reference, throws a good deal of light on some of the aspects of educational problems with which we are more directly concerned.

The labours of these special committees, and the valuable reports which have resulted therefrom, greatly simplify and facilitate our own task, by making it unnecessary for us to deal with many matters to which otherwise we should have felt it our duty to give attention. At the same time, the fact that after the appointment of the Malcolm and Salvesen Committees we ceased to invite evidence on certain branches of the subject covered by their reference makes it impossible for us to submit a comprehensive report, based on independent inquiry, on the relationship between the system of public education and the conditions and prospects of British industry and commerce.

In the circumstances, we have come to the conclusion that the best service we can render is to set out briefly, to the best of our ability and according to our reading of the evidence, the principal desiderata of industry and commerce with regard to the education system.

Character of Training in Elementary Schools.

The chief desideratum of those engaged in industry and trade in relation to the general system of public elementary schools is that it should furnish a steady and even flow of boys and girls, suited in point of number, age and educational training to fill the vacancies in industrial and commercial establishments.

The questions of the age of recruitment and the evenness of the flow are discussed later (see pp. 210–212). As regards the character and standard of educational training no very precise demand has been expressed to us by trade witnesses, but, as stated in "Factors in Industrial and Commercial Efficiency" (Introduction, page 24), there is clearly no desire on the part of those who speak for industry and trade that the boys and girls who enter their employment from school at or about the age of 14 should be "vocationally" trained. On the contrary, they deprecated the over-loading of school time-tables, as likely to impair the thoroughness of training in a few essential subjects. We have, however, reason to believe that the representatives of industry, no less than educational experts, hold the view, with which we cordially sympathise, that the curriculum for the older children should tend in the direction of combining manual with literary training. The educational arguments in favour of such combination have been sufficiently developed in the Malcolm Report* and in the Report of Sir H. Hadow's Committee on the Education of the Adolescent,† From the special point of view of our own reference, the chief advantages are (1) that by such means the more intelligent boys and girls who carry their school education furthest would cease to be unduly deflected from productive industry towards "black-coated" occupations, and (2) that a broad and general training in the principles underlying handicraft and the use of tools may be not only of educational value, but of real "vocational" utility (using the word in its widest sense) to the great and growing body of semi-skilled workers for whom apprenticeship or highly specialised technical education is inappropriate, but for whom it is of great importance that the narrowing influence of the restricted nature of their jobs should be counteracted by a liberal foundation of general education.

In many branches of industry which have undergone, or which are now undergoing, transformation by the introduction of automatic or semi-automatic machines, the relative importance of the kind of training, practical but general, which we have in mind has greatly increased in comparison with specialised craft-training, and we look to such training as one of the most important influences to break down the artificial lines of demarcation which have in the past impeded the exercise of the powers of the semi-skilled workers to the fullest advantage. This aspect of industrial evolution is referred to in other sections of this Report, but we mention it here because we are deeply concerned for the better training of a numerous and increasing class of workers, who in certain important industries hold the future in their hands. We do not think it necessary to suggest any detailed curriculum for the purpose we have in view, because we believe, from a perusal of the

* Second Part, paras. 40–42, 46 and 72.
† pp. 230–4.

educational reports to which we have above referred, that education authorities are becoming more and more aware of the need, and that all that is necessary is to stimulate and encourage further efforts in this direction.

SPECIALISED TRAINING.

Co-operation between industry and educational authorities.

Turning to the more specialised forms of industrial and commercial training which are provided by schools and institutions for older students than those attending public elementary or primary schools, we may refer to the detailed picture of the existing provision for this purpose published in a previous volume.* That survey pointed to the conclusion that the greatest need at the present time is not so much that facilities should be extended as that they should be better used, and above all that they should be adapted to the expressed needs and known conditions of the industries and trades concerned. We called attention to the urgent need "that each great industry should make its own educational needs the subject of thorough and systematic examination,"† pointing out that "this matter is the more important because the changing forms of organisation and mechanical equipment and the sub-division of occupations which characterise some of the more important industries are continually modifying the nature and extent of their educational needs, and these changed conditions of demand can only be fully known to those actually engaged in industry."‡

In the same volume was included a valuable memorandum, supplied by the Board of Education, which dealt *inter alia* with the same point, the conclusion being in effect that each important industry should establish machinery by which it may examine and formulate its own requirements with regard to industrial training, and co-operate with the educational authorities in ensuring that these requirements are suitably met.§

This suggestion has aroused much interest, and it has since been confirmed and worked out in greater detail in the second part of the Report of the Malcolm Committee.‖ We further understand that the Board of Education are already taking initial steps in the matter. It appears, therefore, unnecessary in the present Report to do more than confirm the view embodied in "Factors in Industrial and Commercial Efficiency," and to express gratification that there seems an immediate prospect that practical action will be taken towards giving it effect.

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* "Factors in Industrial and Commercial Efficiency," p. 160 ff. See also Introduction, pp. 24–27.

† Ibid. p. 28

‡ Ibid. p. 26.

§ Ibid. pp. 185–7. See also p. 28.

‖ See especially Chapter VI, "Proposals for establishing contact."

The precise machinery by which such action should be initiated, whether by a central department of State, and if so by which department, or whether by some form of inter-departmental co-operation, or by a representative national committee established *ad hoc*, or by some other method, are matters which need careful thought but which we are content to leave to the decision of the departments concerned, subject to the following considerations.

We consider it very important that any central action for the purpose of stimulating the industries to establish machinery for the consideration of these questions should be taken with great tact and caution, lacking which the most energetic initiative is likely to fail. The circumstances of different trades are so different, and there is such wide variation in the forms and methods of organisation and consultation to which from historical causes they are accustomed, that it is in the highest degree unlikely that any uniform type of machinery could be set up with any prospect of success Even as regards the question between national and local investigation (on which both the Board of Education memorandum referred to above, and the Malcolm Committee's Report favoured inquiry on a national basis) it seems to us desirable, in view of the great variety of conditions, to preserve an open mind, and to be guided by the circumstances of each industry. There may, for example, be industries in which trade opinion is much better organised and more enlightened in one district than in others, in which case local action would lead to more rapid progress than any attempt to set up national machinery on which the more progressive elements would be in a minority. We need hardly say that any machinery for trade inquiry will have the best prospect of being effective if it be jointly representative of employers and employed and act in close co-operation with the educational administrators.

The task to be undertaken is by no means an easy one, and rapid and spectacular results are not to be expected. On the contrary, by whatever method and through whatever machinery the problem is approached, it is likely to demand infinite patience, tact and perseverance, together with high qualities of sympathetic imagination, insight and resource. If, however, the task be undertaken with an open mind and a clear understanding of the governing conditions, we are hopeful that the eventual result will be to breathe new life into the whole system of technical education.

Meanwhile we venture to call attention to certain important points on which, in the interests of industry and trade, some immediate modification of existing practice seems desirable, without awaiting the result of inquiries and negotiations which may often be protracted.

Relation between school and workshop.

One of the commonest criticisms made by representatives of industry and trade with regard to the technical and art education

provided in schools and colleges is that it is not sufficiently practical. To some extent, no doubt, this criticism is based on a misconception of what is possible and desirable for a school or college to attempt, and on an unreasonable expectation that students, when entering employment, shall already possess a practical acquaintance with the commercial and technical conditions of trade and industry which can only properly be acquired in the actual workshop or office. It is not to the interest of industry and trade that schools and colleges should attempt to meet this demand. Their proper function is to lay a broad foundation of knowledge of general principles, and not to try to teach the details of ordinary industrial and commercial practice. It is true that not infrequently technical schools are driven out of their proper course by the need of supplementing the deficiencies of workshop training. Not all employers have formed a clear conception of the respective parts which should be played by school and workshop in relation to industrial training as a whole and they frequently undervalue the broader training which is the special function of the school. A clear demarcation of functions between school and workshop in relation to training for each important branch of industry is one of the first and most urgent needs to which any joint board should direct its attention.

Practical qualifications of teachers.

But apart from the misunderstandings and mal-adjustment to which attention is called above, there is in our opinion a real foundation for the claim urged by industrial and trade representatives that the teaching of technical and art schools and colleges should be on more practical lines. Though, as a rule, it is neither possible nor desirable to teach school students the details of industrial and commercial practice, we consider it essential, both in order that the teaching may bear fruit and that the interest and cordial co-operation of industry may be ensured and maintained, that members of the school staff should possess practical and up-to-date knowledge of the conditions and requirements of the industries for which their teaching is a preparation. Nor is it usually sufficient that a teacher should have had previous experience of industrial conditions, since these conditions change so rapidly that his knowledge may soon become out of date.

So far as we can see, the most effective, perhaps the only certain way to ensure that the members of the teaching staff shall keep abreast of modern developments in industrial science, art and technique is that they should be encouraged, and if necessary required as a condition of their employment, to devote sufficient time to scientific research or to the practice of the industry or craft. With part-time instructors such a stipulation should give rise to no difficulty, but it has been represented to us that in the case of full-time teachers the terms of service, including conditions of pension, sometimes impose, or are thought to impose, serious

obstacles. That this is at least a widely spread opinion appears from the continual references to the point in the Report of Lord Emmott's Committee, especially in the summary of replies from Technical Institutions to the searching questionnaire issued by the Federation of British Industries for the use of that Committee. To the question relating to opportunities for research by members of the staff a number of replies laid stress on the lack of time for research work, "owing to the amount of teaching required under pensions regulations." Similarly it is stated that "grace terms and sabbatical years would appear to be ruled out under the conditions attached to the Superannuation Act." In one reply, "the construction of the Burnham Scales" of salary is stated to militate against the recruitment of staff possessing industrial experience. Finally, the London County Council definitely stated in its reply "that the arrangements in force regarding superannuation and salary scales make official recognition of research impossible." It has been further represented to us that these arrangements also put difficulties in the way of full-time art instructors practising an art or craft.

It is outside our scope to enter into the highly technical and complicated questions of scales of pay and conditions of pension for teachers. But whether the statements and opinions quoted above are well founded, or based on a misunderstanding, it appears to us highly desirable that the situation should be cleared up without delay, either by a modification, or by an authoritative interpretation, of the conditions of service and pension.

We should wish, however, to go a good deal further than this, for the mere removal of official obstacles, if they exist, will not in our opinion be adequate to meet the case. As already indicated, we consider that wherever practicable a stipulation should be inserted in the conditions of service of technical and art instructors, designed to encourage, and if need be, to require them to devote a sufficient amount of time to research, or to the actual practice of a craft. Even if this provision involved some restriction in the number of hours during which full-time instructors were expected to teach, we are convinced that this would be more than compensated by the gain of the teaching in living force and appeal, and in the increased confidence with which it would be regarded by the trades. Naturally, proper safeguards would be necessary in order to prevent any suspicion of unfair competition with ordinary trade, and any possibility of neglect of teaching owing to the superior attractiveness of other work. The precautions taken for this purpose by certain technical institutions which allow members of their staff to take outside work are summarised in the Emmott report, and we do not desire to lay down any hard and fast rules on a subject which can only be dealt with locally and in the light of the special circumstances of each case. We have no doubt, however, that a satisfactory solution will be found, when once the vital importance of encouraging instead of restricting outside practice is thoroughly understood.

Action by employers.

Another matter which has been impressed upon us, and on which we desire to enlist the co-operation of employers, is the very great importance of personal interest and stimulus on the part of the heads of firms, in encouraging the attendance of their junior employees at technical schools, or in arranging for classes in their own works. There are many ways in which attendance may be encouraged, ranging from publicity, payment of fees, or offer of prizes, to the allowance of time-off in working hours, or even the making of attendance at classes compulsory. We are glad to know that some of these methods of encouragement are fairly, and we hope increasingly, common; but one of the most effective of them—the allowance of time-off—does not appear from the information before us to be nearly so widely adopted as we think it deserves to be. The weight of evidence seems to shew that technical instruction in the evening is unattractive to many young persons who have done a full day's work, and, though the small minority who do attend doubtless derive great benefit, they are hardly in a condition to obtain full value from the instruction. Wherever the conditions of industrial organisation permit of it, employers ought to consider very carefully the possibility of allowing learners and apprentices to attend classes under suitable conditions during working hours.

We are, of course, aware that in some circumstances employers will find it difficult, or even impossible, to give practical effect to this recommendation; but we believe that the obstacles arising from trade practice or workshop organisation could often be overcome, if there were a strong desire to do so. Such a strong desire, however, can only result from a genuine belief in the value, both to the employee and to the business, of the instruction given in the classes. It appears to us, therefore, that the question of this and other methods of encouragement of trade classes by employers is intimately bound up with the broader questions which have already been discussed of the educational needs of each industry and the proper demarcation of functions between school and workshop.

We would, however, emphasise once more the great importance of personal interest on the part of the heads of firms in the training of their junior staff, whether within the workshop or in outside classes. No formal arrangements, however perfect, can give nearly as great a stimulus to exertion and self-improvement as the consciousness on the part of each student that his training and progress are the object of personal interest to the responsible heads of the undertaking.

The Limits of School Age.

Nature of problem.

As regards the age at which boys and girls should pass from school into industrial employment, so much has been said and written in late years that we have some hesitation in entering on this very

controversial topic. It appears to us, however, to be incontrovertible that there is still a gap between the age at which compulsory education ceases and the most suitable age of entry into many industrial occupations, especially those requiring physical strength. The existence of this gap is one of the contributory causes, though probably not the main cause, of the formidable increase in juvenile unemployment which, in the years immediately following the war, caused much anxiety, in view of its extremely prejudicial effects on boys and girls. To quote the Malcolm Report, "the evidence which we have received leaves no doubt in our minds that even a comparatively short period of unemployment may tend to demoralise, and to affect the employability of, the average boy or girl."*

The problems presented by juvenile employment, including the difficult question of "blind-alley" occupations, and the comparatively new phenomenon of juvenile unemployment, are discussed in detail in the Malcolm Committee's report, and in the report of the Committee on the Education of the Adolescent. Both of these reports reveal a strong trend of opinion in favour of an extension of the period of general education, limited only by practical considerations of finance and administration into which we do not propose to enter. We are in agreement with the view expressed by the Malcolm Committee that "if the change is to be made it should be made on educational and social grounds"† ; and the same applies to the proposal to establish compulsory day continuation schools with part-time attendance.‡ We should, however, like to make it clear that we interpret the expression "educational grounds" in a broad sense—as covering all considerations relevant to the future welfare of the boy as affected by his training, including the appropriateness of this training to fit him to play his part in industry. We deprecate the too common tendency to treat "educational" and "industrial" considerations as though they were independent and even opposed.

The Malcolm Committee, while abstaining from any definite recommendation on the subject on the ground that the matter was outside their reference, stated that they had been "profoundly impressed by the weight of the evidence put before us in favour of some form of compulsory education beyond the present statutory age," and added their strong personal opinion "that the extension of compulsory education, either whole-time or part-time, would be in the interests of the boys and girls themselves and of the country as a whole."§

The Hadow Committee on the education of the adolescent reported definitely in favour of raising the school leaving age to 15 at the expiration of five years (i.e., in the year 1932).‖

* 1st Report, para. 68.
† Ibid. para. 110.
‡ Ibid. para. 112.
§ 1st Report, para. 113.
‖ Report, p. 148, §168.

As we have taken no independent evidence on this subject, we do not feel that as a Committee we are in a position to do more than take note of these weighty pronouncements, without attempting to decide as to the relative merits of alternative methods of extending the period of school attendance, or the precise date at which it will be possible and prudent from an administrative and financial point of view to take a definite step forward in either direction or both. It is generally acknowledged, and indeed the actuarial data supplied to us make it plain, that the next few years will present the maximum difficulties, both administrative and financial, for the extension of school age, but that such difficulties as arise from the abnormal age-distribution of the children due to the war will diminish as from about the year 1933, and will eventually disappear.* Considerations of this order will no doubt be fully in the minds of those responsible for the eventual fixing of a date.

We venture, however, to urge very strongly that, in deciding the form and method of any change, the initial difficulties of adjustment which industry will have to face should be sympathetically considered. It has been suggested to us that these initial difficulties might be lessened if the extension of school age were effected gradually, e.g., in two, or even three, stages. Such an arrangement (which we discuss further on pp. 211–2) would certainly ease the difficulties of the transition from an industrial point of view. Whether it would also suit the convenience of school administrative authorities we have not the means of saying.

Restrictions on school-leaving date.

One of the desiderata of industry and trade already mentioned is that the supply of entrants into industry should be steady and even. At present children are released from compulsory school attendance not on the attainment of any specified age, but in batches, at the end of each school term. This arrangement, which is very inconvenient to industry, arises from the operation of §138 (1) of the Education Act of 1921,† which fixed the limit of compulsory attendance as the end of the term during which a boy or girl reaches the age of 14.

An arrangement which makes the length of a child's compulsory school life depend on the accident of the date of his birthday, while of course convenient to educational administrators, undoubtedly inflicts a disability on industry, and, as stated by the Malcolm Committee, produces the result that "often at school leaving periods there is some congestion of the labour market which cannot at once absorb the supply of juvenile labour thrown upon it."‡

* Cf. table on p. 150 of "Factors in Industrial and Commercial Efficiency."

† The corresponding provision in Scotland is § 7 of the Education (Scotland) Act, 1908.

‡ 1st Report, para. 146.

We do not propose a change in the present system except in connection with a general extension of school age, inasmuch as the repeal of the present provision would have as an incidental effect the curtailment of average school attendance by a few weeks. We cannot, however, share the optimistic view that "employers are adjusting their arrangements to the position";* and we consider that, if and when a new step forward is taken, the reasonable demands of industry in this matter ought in some way to be met.

Working certificates.

We are cordially in agreement with the principle of "working certificates" for juveniles which forms an important constructive recommendation of the Malcolm and Salvesen Committees. Without entering into details, some of which may be open to modification, we consider that some such system as is proposed would do much to bridge the present hiatus in public supervision, and to bring young persons and their employers into closer touch with the public agencies for finding employment. It occurs to us, moreover, that if and when this system is effectively brought into force, it may afford valuable assistance in solving some of the difficult problems of juvenile education and employment, including that which has just been discussed.

Suggested gradual extension of school-leaving age.

We are aware of the many difficulties which surround the whole problem, and if we venture to make a concrete suggestion it should be clearly understood that it is offered solely as a basis for further exploration. It is the more necessary to make this clear, because, for reasons already given, any views which we have formed are based on published data, supplemented by the personal experience of individual members of the Committee, and not on any fresh investigation conducted by the Committee as such.

Our tentative suggestion is that, starting from the earliest date which financial and administrative conditions permit, the period of compulsory school attendance should be extended by one term† in each of the three subsequent years, subject always to the condition that during the last term of school life *as thus extended* any boy or girl may be exempted from attendance on obtaining a situation notified through the local machinery for juvenile employment, or possibly in accordance with the "working certificates" scheme, if and when it is brought into operation. Some such plan would, as it seems to us, cause the minimum inconvenience to industry, while it would remove all legitimate ground of complaint from employers that they are unable to obtain juveniles except at certain school-periods. It would give time for the gradual expansion of school

* 1st Report of Malcolm Committee, para. 49.

† i.e., one-third of a school year.

accommodation, and it would retain at school until the end of the term those who have failed to obtain employment in the manner prescribed.

Whether or not such a scheme as we have outlined is administratively workable, we have no doubt that the main objective to be kept steadily in view is to ensure so far as possible that juveniles should be either in suitable employment or receiving suitable instruction, and to reduce to a minimum those periods of idleness or intermittent employment which are even more injurious to the moral and physical well-being of young persons than of adults.

Age limits for apprentices.

Before leaving this subject, we desire to call the attention of employers' and workmen's organisations to the necessity of reviewing their rules as to the age limits for apprentices and learners. In some important industries at least, these rules date from a time when the usual school-leaving age was considerably lower than at present, and have never been adapted so as to take account of the changed conditions. It is most desirable that there should be no obstacle to impede the entry into skilled employment of boys who have continued at school beyond the age of compulsory attendance, and also that with every change in the school-leaving age the limits of age for entry into such employments should be revised.

HIGHER EDUCATION.

The problem of the relation of university and other higher education to British industry and trade presents special features and difficulties of its own, which were not dealt with by any of the committees referred to above. One characteristic feature of this form of education is that it is not as a rule completed until the student has reached an age higher than the age of ordinary entry into employment of persons destined for the higher posts in industry and trade.

The whole problem of the higher staffing of businesses, and of the position in relation thereto of college-trained men, cannot be said to have yet been satisfactorily solved. The outstanding need at present is not so much for an extension or amendment of the facilities offered by the colleges and other institutions, which would appear for the moment more than equal to the effective demand from industry and trade, as for a more intelligent appreciation, on the part of the business community, both of the value of more highly trained men to business and of the necessary conditions which define and limit their utility in any particular case.

The nature and extent of the existing provision for higher technical and commercial education in colleges of university rank or analogous institutions were described at length in "Factors in Industrial and Commercial Efficiency."* The available information makes it

* See Chapter II

clear that the present response of the leaders of industrial and commercial enterprises to the educational efforts made to train candidates for entry into the higher grades of these organisations is much less certain and widespread than in certain foreign countries, e.g., Germany or the United States. In this country, with its longer established and more conservative industrial and commercial traditions, the business world as a whole is still more alive to the drawbacks, and less appreciative of the advantages, of the employment of University graduates than is the case with our younger and less conservative rivals overseas. We believe that conditions are changing in this respect, but the change is as yet too slow and uncertain to afford a solid basis on which the university and other institutions can build. In this connection we may draw attention to the considered views expressed to us by the managing director of an important manufacturing enterprise largely dependent on scientific research. "We live to-day," he said, "in a world infinitely more technical than it was 20 years ago, and the old-fashioned type of more or less self-made man, who had grown up as a practical man inside a factory and reached the position of works manager, is now definitely out of date. His continuance in this position is, in my opinion, largely responsible for the parlous condition of many of our industries, particularly engineering and textile. . . . . Speaking generally, I believe industry wants leaders with scientific knowledge even more than it requires highly-trained chemists."

Such questions as the right age of entry into business, and the relative value for the higher posts of men promoted from the lower grades or introduced at a later age from the outside, are delicate and difficult matters which involve special considerations in each case, and cannot be solved by general rules applicable to all classes of undertakings.

There are, however, certain features in the problem as it presents itself to-day which we think do not always receive adequate consideration in arriving at decisions on these matters.

The continual increase in the size of the business unit necessarily involves an increased demand for men of greater calibre for purposes of the higher control; and without an adequate supply of such men the benefits of the larger unit will not be realised. In our judgment, such an adequate supply can only be expected to be forthcoming if the field of selection be widened by staffing the undertakings to a much larger extent with men who not only possess good natural ability, but have also the advantage of higher education. It is, moreover, to be remembered that the problem of the higher staffing of a business as carried on in normal times on more or less settled lines is quite different from that of an undertaking which has to adapt itself to rapid and unexpected changes and transformations of demand and supply. As we have repeatedly pointed

out, one of the essential requirements of present day business is adaptability, and this demands qualities of breadth of view, swiftness of appreciation and imaginative insight, which are on the whole more likely to be found among persons who have received a higher training than among those whose education has been more restricted.

It has been represented to us that the well-known receptivity of German industrialists to the results of scientific research is due in no small measure to the fact that a comparatively high proportion of the heads and managers of their undertakings have themselves had a scientific or technical training.

In view of the bearing of the subject under discussion on the all-important problem of industrial mobility, we recommend that it be carefully examined afresh by the leaders of industry and commerce, both individually and through their representative associations, in the light of the above considerations.

(5) Scientific Research.

Existing situation.

In our volume entitled "Factors in Industrial and Commercial Efficiency,"* we gave a description of the activities of the State and of State-aided organisations in respect of scientific research applied to industry. We also referred briefly to the research work carried on by individual industrial undertakings. It was indicated that the recognition of the value of scientific research by the industries concerned, though growing, is "still very imperfect," and the position was contrasted with that obtaining in certain other countries, e.g., the United States and Germany, where "a very great amount of research has been carried out by industrial associations, corporations and combinations, and even by large individual concerns." In this country a considerable amount of scientific research is also being carried out in some of the larger works, but the greater part of the services of the scientific staff of industrial establishments is absorbed by routine testing, or what has been called "tactical," as distinguished from "strategical," research, i.e., the improvement of results obtained from a given process, rather than the search for new products and processes, or the investigation of fundamental laws.

Research of this higher description, which is often beyond the means of individual works, is undertaken either by the State, in such establishments as the National Physical Laboratory and other research stations, or by the co-operative research associations (described in the chapter on scientific research in the volume referred

* See pp. 36–9 and 306–334.

to above) which represent a joint effort of the industries themselves and the Department of Scientific and Industrial Research. To the description of the work of these various agencies given in that chapter we have nothing to add. We can but confirm the view indicated in the introduction to the volume that the most hopeful direction of future development is to define more and more clearly the line of demarcation between the kind of research which is the special function of the State (i.e., that concerned with fundamental scientific problems and their application to industry as a whole, or to great groups of industries) and that which is the proper function of industrial undertakings, either singly or in co-operation.

Of the actual quality of the scientific work carried on by the various research associations we have no means of forming a first-hand judgment, without a detailed and highly technical inquiry which we have not thought it necessary or desirable to undertake. No doubt some of the associations are doing better work than others; but in view of the representative character of the governing bodies, and the watchful care exercised by the Department of Scientific and Industrial Research, we think it safe to assume that on the whole, and within the limits of the funds available, these organisations are well equipped, and their energies are properly directed towards the problems which in the judgment of those concerned are of the greatest immediate interest to the respective trades.

Relations between Research Associations and industries.

It is when we come to consider the relations between the research associations and the industries themselves, and the extent to which these industries avail themselves in practice of the results of research by their own associations, that we find most cause for disquietude. It is from this point of view that, as stated in the introduction to "Factors in Industrial and Commercial Efficiency," "it must be admitted that these associations have not yet in all cases struck deep root, and the experimental stage has not yet been safely passed."

Attitude of Research Associations.

We have endeavoured to ascertain how far the admittedly inadequate extent to which the results have been utilised up to the present by British industries is attributable to any defects on the part of the research associations, or to the want of response and appreciation on the part of the industries themselves. We have, for example, heard complaints that the results of research are couched in language too technical to be understood by those for whose benefit it is carried out, or at least by the rank and file of the industries concerned. Naturally, scientific results can only be expressed in the appropriate terminology. The suggestion, therefore, can only be that, besides its scientific work proper, the research association should

engage in a campaign of publicity and explanation, in order to popularise the results achieved and to persuade its members to utilise these results. We have ascertained that, up to a certain point, many of the research associations have already undertaken work of this kind. The directors of several of these associations devote a considerable amount of time to "canvassing" firms, and addressing meetings of trade associations or chambers of commerce. Some (e.g., the cotton, electrical, non-ferrous metals and refractories research associations) have gone so far as to appoint special liaison officers to explain to firms the practical bearing of the investigations carried out and to stimulate their interest therein. Many associations (e.g., the woollen and worsted, cotton, linen, and boot and shoe research associations) issue popular handbooks or pamphlets explaining in non-scientific language the results and character of the research carried on. A number of associations also issue to their members periodical bulletins at quarterly, monthly or fortnightly intervals summarising the published literature of this and other countries which has a direct interest to the industry, and in some cases these bulletins also summarise the results of the researches carried on by the associations. In addition the Department of Scientific and Industrial Research has issued a publication entitled "Co-operative Industrial Research," giving a general account of the work carried on by the research associations.

It is difficult to see how many of the research associations could do much more in the direction of bringing the value of their results to the notice of those concerned without seriously deflecting the energies of their scientific staff from their primary duty of research. We can only express a hope that the best practice of those associations which have done most in this direction may, so far as practicable, be followed by other research associations.

Attitude of industries.

When, however, all has been done that can fairly be expected from the research associations themselves, there will still be a great gap unfilled. We do not underrate the real difficulties which, especially in a period when industry is depressed and capital difficult to secure, may hinder the adoption by manufacturers of recommendations involving drastic alterations of processes, or the scrapping of existing machinery to make room for new and relatively untried plant. Even when full allowance is made for these considerations, however, it must be confessed that the response of the trades to the propagandist efforts of the research associations is frequently most disheartening. It has been suggested to us that possibly the ordinary trade association, or (where it exists) the joint industrial council, might be utilised as a means for bringing about a better practical appreciation of the results of industrial research. In some cases we think that these associations and councils might with advantage

undertake work of this kind, and we notice with interest that the National Federation of Iron and Steel Manufacturers has recently begun to circulate to its members information as to technical and scientific trade literature compiled in co-operation with the Iron and Steel Institute, of the same nature as that issued by some of the research associations. Where, as in the engineering, chemical and other trades, important technical institutions exist, they may do much to assist in this matter. The circumstances of different industries, however, vary so widely that it seems probable that the question of the precise agency through which information as to current research can best be supplied to individual firms, and an atmosphere created favourable to the reception and utilisation of scientific results, will be differently solved by different trades.

We, therefore, recommend that every important trade association should take into consideration the existing means for the dissemination of information of this kind in the most appropriate form for the benefit of its members, and, where it finds the existing means inadequate, should take steps to establish, or to secure the establishment of, suitable machinery for the purpose, whether within its own organisation, or by arrangement with the research association or joint industrial council, or in some other way.

Better utilisation of research.

The carrying out of the above recommendation will lay the foundation of a better understanding on the part of the industries of what is being accomplished in this and other countries in the way of scientific research. But it will be only a foundation, and in order that a British industrial undertaking may reap the full advantage of this research, it is essential that there should be some responsible officer on the staff of the undertaking itself whose duty it is to follow closely the progress of scientific research as summarised in the bulletins received, and who is qualified by training and natural aptitude to appreciate the bearing of research on practical problems of the works. At present it is too often the case that the information, compiled with great skill and labour, simply runs to waste for want of a properly equipped "receiving" mechanism within the works, just as the waves set in motion by a broadcasting station produce no effect without the appropriate receiving apparatus. It may be added that to obtain the best results the officer charged with this business must either occupy so high a position as to be able to make his views felt, or he must be in close touch with a principal or managing director who himself has sufficient scientific training and interest to appreciate and criticise the suggestions of his subordinate.

We do not think it possible to stress too strongly the fundamental proposition that, in order that an industry may obtain practical value from scientific research, it is absolutely necessary for at least an adequate proportion of those who occupy responsible positions in

the industry to have a scientific habit of mind. This does not of course mean that they should have the specialised training necessary to enable them to conduct research, but that their minds should be receptive of the results of such research and alert to its practical bearings. We here meet again the general problem of scientific education in relation to the leaders of industry. It needs to be much more generally recognised that the requirements of industry in this respect include not only the intensive training of the expert, but also the widespread diffusion among future industrial leaders of the capacity to appreciate the value of science to industry. We have already emphasised this point when dealing with the question of industrial training. (See pp. 212–4.)

Before British industries, taken as a whole, can hope to reap from scientific research the full advantage which it appears to yield to some of their most formidable trade rivals, nothing less than a revolution is needed in their general outlook on science; and in the case of some industries at least, this change of attitude is bound to be slow and difficult, in view of our old and deeply rooted industrial traditions.

In the meantime, and while this difficult process of permeation and conversion is still incomplete, the question arises whether industry might not be enabled to take better advantage of scientific research by following the practice of certain trades (e.g., shipbuilding, engineering, the electrical industries) in making use of professional consultants, possessing a high degree of scientific and technical training, who make it their business to keep abreast of the latest results of research. It has been suggested to us that there may be an opening for the extension of the activities of such professional consultants to other branches of industry, and that their services may afford the most immediately available method of enabling an industrial undertaking, which for one reason or another is not equipped with a scientifically trained staff, to assimilate the results of scientific research. It seems to us well worthy of consideration whether, in the existing circumstances of certain industries, this suggestion may not afford a valuable contribution towards the solution of this difficult problem.

Advancement of research.—State aid.

We have laid special stress on the importance of this aspect of the question of scientific research in relation to industry, because in our opinion it is the imperfect receptivity towards scientific ideas on the part of British industry which is at the moment the main obstacle to advance, and a change in this attitude would open up prospects of development which at present are beyond the range of possibility. But we do not by any means wish to be understood as giving priority to the question of the education of the manufacturer over that of the advancement of research proper, in the sense that the latter must mark time until the former has

made progress. On the contrary, there is no more powerful means of educating an industry as to the value of science than the actual discovery of new processes, or the improvement of old methods, by means of research. On all grounds, therefore, we desire to urge strongly that there should be no relaxation or curtailment of the efforts of the Department of Scientific and Industrial Research, and no withdrawal of financial support on the part of the Government.

As already indicated we look ultimately to such a demarcation between public and private effort as will enable State assistance to be concentrated on fundamental research, the industries taking entire responsibility for their own research associations. We fully adhere to this as an ideal for the future, but we are satisfied that any such change must be brought about very gradually, and without destroying or disturbing any valuable work which is now being carried on. We have some doubt whether the time is even yet ripe for the beginning of such a change, and we feel strongly that the question of State aid for research associations should be determined on a broad and long view of the ultimate national interest, and not merely on the basis of measurable results already achieved.

We are, therefore, glad to learn that since the publication of our "Factors in Industrial and Commercial Efficiency," the Government have announced their decision to continue for a further period to give financial support to research associations, under modified conditions evidently designed to stimulate the exertions of the trades and to induce the associations to expand the scale of their work. We earnestly trust that this endeavour will be successful, for it is on the cordial and sustained interest and support of the trades concerned that the future of industrial research must mainly depend. In this connection we have watched with interest and sympathy the steps taken by the rubber industry to secure the necessary funds for the operations of its research association through a small levy on imported rubber. We hope that this scheme will receive legislative sanction, and that it may serve as an example to other industries to adopt measures, suited to their special conditions, for placing the finances of their research associations on a permanently satisfactory basis.

(6) Industrial Art.

General.

[redacted]resent position of British manufacture with regard to industhas been discussed in the introduction to "Factors in and Commercial Efficiency,"* and described in greater apter V of that volume. The chapter in question to us by the British Institute of Industrial Art, a semi-

* pp. 39–41.

official organisation established immediately after the war by th Board of Trade and Board of Education for the purpose of dealin with this important matter.

The situation disclosed in the chapter appears to be far fron satisfactory, and in view of the vital importance of fine design and workmanship in maintaining and enhancing the reputation and attractiveness of many classes of British products, we are of opinion that a great effort ought to be made to effect an improvement.

Many branches of British manufacture depend essentially on industrial art, and the State and local authorities have for many years devoted large amounts of public money to the training of artists and craftsmen, whether by means of art and technical schools, or of industrial art museums. Nevertheless, there is insufficient co-operation between many of these agencies and the industries dependent on design; and public institutions primarily intended for the training of artists and designers exist in the midst of industries essentially dependent upon industrial art, but without any close or organic relationship to these industries. While school authorities may be complaining that there are no attractive industrial openings for their students, the local industries may be simultaneously purchasing large quantities of ready-made designs produced in the *ateliers* of Paris.

We are, of course, aware of the deeply-rooted conditions which explain in a measure the continued reliance of important branches of British manufacture on designs purchased abroad, e.g., the great, if often exaggerated, reputation of foreign, and particularly French industrial artists, and the advantage to the manufacturer who has to cater for many different markets and classes of consumers of having the choice of a wider range of designs than could be obtained from a single trade designer or studio. This is especially true of industries which are liable to wide fluctuations in the volume and character of demand, a factor which sometimes make it difficult or impossible to satisfy the varying demands without recourse to outside sources for designs.

If, however, for these reasons it is impracticable that British manufacturers should dispense wholly with purchased designs, it is nevertheless clear that the divorce between design and production, which is the natural result of excessive reliance on designs purchased from abroad, involves obvious dangers. Where design and manufacture are carried out in different countries, by persons of diffe race and artistic outlook, it is evident that there cannot be t and natural relations between designer and producer fr alone the best artistic results can be expected. The att manufacturer to surmount this difficulty by employing designer" to adapt purchased designs to manufactur is at best an imperfect expedient, while at the w ruinous to the quality of the designs.

For these reasons we lay stress on the urgent importance of establishing much closer relationship between British manufacturers and the institutions which aim at training designers for their needs. The aim should be that, so far as is compatible with the economic conditions of each industry as described above, the maximum reliance should be placed on well trained designers working in close touch with the manufacturing undertakings, and capable of creating as well as of adapting the creations of others.

Before considering the best means of promoting this important national object, we would emphatically disclaim any desire to exclude or diminish the inflow into this country of foreign artistic products or ideas. On the contrary, we realise that art, like science, has no national boundaries. Some of the greatest outbursts of art activity have been the result of the inter-action of different cultures, and if such inter-action has sometimes threatened the continuity of a national or local tradition, this has been generally far more than balanced by the enrichment of national art life derived from external stimulus and example. We should be wholly opposed to any kind of artificial restriction, even were such restriction possible, on the freest international exchange of artistic products and ideas. What, in our judgment, is needed is not the exclusion of foreign designs, but the development of such close and healthy relations between British manufacture and British training institutions as will permit and promote the natural growth of what we have already described as " a characteristic national style worthy both of the fine past traditions of this country and of the undoubted technical excellence of its modern manufactures." The result would be to " create a new and valuable asset for British industry."*

We do not think it necessary to restate at length the present position with regard to art schools and museums, which remains substantially as described in the volume referred to.† It must, however, be evident, from the facts stated in that volume, that the results on British industry are not at present commensurate with the magnitude of the effort and expenditure devoted to these purposes.

Schools of Art.

Of existing schools of art quite a considerable proportion make but a small contribution to British industrial art. We are not suggesting that for this reason they are useless, for a school of art may have a purpose other than the training of industrial designers. Moreover, a school which has no definite connection with manufacturing industries may from time to time assist students of artistic capacity to become artist craftsmen. As pointed out in the volume already quoted, it is of the highest importance to the industries themselves that the artist craftsman, who is at once the

* " Factors in Industrial and Commercial Efficiency," p. 41.
† Ibid, pp. 345–350.

repository of craft tradition and the pioneer explorer of new methods, should not entirely die out. The result of his disappearance " would inevitably manifest itself in a progressive degeneration and impoverishment of industrial design."* So far as art schools in non-industrial areas serve this purpose, they must be regarded as contributing, though indirectly, to maintain the standard of industrial art.

Subject to this reservation, we may, from the point of view of our own terms of reference, disregard all but a small minority of schools of art, which are situated in the neighbourhood of industries dependent on design, and are technically equipped for the purpose of supplying their needs. Even in these cases, with a few notable exceptions, the relationship between schools and industries leaves much to be desired, and is certainly far less close than is found in some of the leading continental countries. In view, therefore, of the situation disclosed in the chapter supplied by the British Institute of Industrial Art, we endorse the opinion therein expressed that " there is need for searching inquiry into the causes of the comparative weakness of the relation between many schools of art in large industrial districts and the local industries dependent on design."†

The kind of investigation which we contemplate is not a fresh inquiry by a Government committee. The dangers of the present situation, so far as they can be stated in general terms, are already sufficiently well-known ; they have been described in outline in " Factors in Industrial and Commercial Efficiency," and no good purpose would be served by re-stating them elaborately in another report. What is required is that each industry dependent on design should be encouraged and assisted to examine its own circumstances and needs in respect of artistic training, with the definite object of promoting a better understanding and closer co-operation between the industry and the technical schools of art, and removing any obstacles which at present hinder that co-operation. One very important result to be expected from such an examination, if carried out in collaboration with the responsible heads of the technical schools of art concerned, is a more adequate appreciation on both sides of the limiting conditions under which the work of the school and the manufacturing undertaking must respectively be carried on. To reduce within reasonable limits the exaggerated notions so often entertained, on one side or the other, of what a school can be expected to accomplish, or a workshop to provide, is the indispensable first step towards real co-operation upon sound and well understood lines. Once this co-operation becomes a living reality, everything else may be expected to follow.

If, as already suggested, the task is not one which a Government department is best suited to undertake directly, neither is it one which can safely be left to the unaided initiative of the trades or

* " Factors in Industrial and Commercial Efficiency," p. 337. † Ibid. p. 347.

school authorities themselves. The gap between the two is often too wide to be bridged in such a manner. It appears to us that the case is one which can best be met by the action of such a semi-official organisation as the British Institute of Industrial Art, which, though established under the joint auspices of the Board of Trade and Board of Education, is in practice autonomous, and through its body of Fellows is in direct touch with the manufacturers, crafts, and schools concerned with industrial art. We understand that in respect of certain industries the Institute has already conducted investigations on the lines which we have in mind as to the relations between the trades and the schools. The scope of such work is at present limited by want of funds, but we have little doubt that a moderate subsidy would enable the scale of operations to be increased to any requisite extent. We should indeed deprecate anything in the nature of a sensational national campaign, which is much more likely to alienate the trades than to enlist their sympathy. What is needed is very careful, tactful and patient effort, probably continued over a considerable period of time. It must be based on a thorough understanding and appreciation of the special conditions of each trade, and only extended gradually from trade to trade in accordance with the experience gained. We consider that the Treasury should make a suitable grant for a period of, say, three years to enable the Institute to carry out this work.

Museums of Industrial Art.

Another matter of importance which was referred to in "Factors in Industrial and Commercial Efficiency"* is the improvement of the relations between museums of industrial art (especially local museums) and the industries concerned. This problem has several aspects: (1) the improvement of the museums themselves, (2) the promotion of better co-operation between museums and local industries, and (3) the right use of museums by various classes of visitors, including students, designers, craftsmen, manufacturers, wholesale and retail dealers, and the public generally. So far as concerns the great national collections the subject is now under investigation by the Royal Commission on National Museums and Galleries, and we do not, therefore, desire to offer any concrete recommendations on this branch of the question. As regards local museums, we can only endorse what was set out in the chapter on industrial art already referred to,† viz., that "generally speaking the funds provided for the maintenance of local industrial art collections are inadequate, and the co-operation between many local museums and local industries is defective. With one or two exceptions (e.g., pottery and lace), the surveys‡ do not suggest that

* p. 349.

† "Factors in Industrial and Commercial Efficiency," p. 350.

‡ i.e., the surveys (annexed to the chapter) of the situation as regards industrial art in individual industries.

provincial art museums play an important part in relation to current industrial art and the industries dependent thereon. In the matter of provincial museums of industrial art, Great Britain does not compare well with such continental countries as Germany and Switzerland."

So far as we can judge, the present situation is that the provision of local facilities for the study of examples of historic industrial art is very defective, if judged by any reasonable standard, positive or comparative; while the demand for improved facilities on the part of the trades concerned is, with a few notable exceptions, practically non-existent, or at least not vocal. It may be that those industries which are within reasonable train distance from London prefer to rely on the great national collections rather than on a local museum, but it is doubtful if the number of *bona fide* trade designers and manufacturers who make serious use of the Victoria and Albert Museum is sufficient to support this explanation.

In any case, there seems at present little real pressure from either side to improve the existing local situation, although the improvement of local museums of industrial art, both for educational and industrial purposes, is only second in importance to that of the technical art schools themselves. From the point of view of our present inquiry, we are disposed to regard this problem as forming one aspect of the general problem of improved and closer relations between education and industry, and as therefore falling naturally within the purview of the inquiries which we recommend should be undertaken through the British Institute of Industrial Art.

(7) Statistics in Relation to Efficiency.*

Introductory.

At every point of our investigation we have come in contact with statistical problems. In the endeavour to furnish ourselves with a statistical basis for the various parts of our enquiry, we have made the fullest possible use of the official machinery for the compilation of statistics; we have obtained statistical material from each industry that has given evidence; we have also sought for statistical data among numerous individual firms. Our field of experience is therefore wide.

From the point of view of our terms of reference, the problem of commercial and industrial statistics presents itself in three different aspects:—

(1) what figures of account and other statistical records of business transactions should an industrial and commercial enterprise keep or compile, with a view to informing its principals continuously and accurately with regard to the essential facts of the situation, and thus enabling them to conduct the enterprise with efficiency and profit?

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* As regards banking statistics, see p. 54.

(2) what data with regard to the undertakings carrying on a given industry ought an efficient trade association to compile and digest, from information supplied by its members or otherwise, in order to keep each member continuously and accurately informed as to the general situation in the industry, so that he may be in a better position in the light of this information to lay his plans for the future?

(3) what data as to the fundamental facts of industry and trade ought the government to obtain, either by compulsory requirement or by voluntary arrangement, from persons and firms carrying on industry and trade, so as to be able (*a*) to supply the commercial and industrial world with information and guidance that will assist them in carrying on their business, and (*b*) to furnish the various organs of government and economic and statistical observers with the necessary material to assist them in forming a sound judgment as to the general situation and trend of industry and trade, in instituting comparisons with previous periods, and in making forecasts of future prospects?

Business costing systems.

The first of these questions involves the difficult and intricate problem of methods of business costing. In the course of our enquiry into costs of production and distribution, we met with great difficulties in obtaining the necessary data in comparable form, on account of the lack of consistent and scientific practice among many firms in respect of costing accounts. We were further informed that extreme variety of practice created great difficulties in the preparation of evidence regarding certain industries. A striking feature of the reports of the committees under the Profiteering Acts was the frequency of reference to the unsatisfactory organisation of businesses in respect of their costing systems. The evidence we have received shows that, although the position is undoubtedly improving, it is by no means satisfactory, even in some of our largest and most important industries. The costing systems of some firms no doubt leave nothing to be desired; but in other cases there appears to be inadequate knowledge of costs, due, as one of our witnesses said, "to indifference, or more often to ignorance, of scientific methods of costing, which are generally looked upon at best as a necessary evil." Further, there is little uniformity of principle throughout the costing systems within a given industry.

A few of the trade associations, however, are seeking to introduce a greater measure of uniformity among their members. One important association, for example, has its own standardised method of costing, devised to suit the peculiarities of the industry, and its members are advised as to the adaptation of this system to their individual works. The same association has also published a book giving an outline of the costing system recommended. Members

make periodical returns of their costs, and also half-yearly returns showing their on-cost rates constructed on the lines approved by the association. The effect of fluctuations in the on-cost rates on the costs of various articles is gone into; average rates constructed from these returns are sent out to members as well, in order that their individual efficiency may be compared with the average. Another association stated that, with a view to setting up a standard of costing practice, a costing expert was engaged, and an examination made of the systems employed by firms producing a variety of products. A report describing the recommended system was circulated by the association to its members, and it is believed that this has proved of great advantage.

The variety of conditions precludes any attempt to lay down a uniform costing system applicable to all classes of business enterprise. In our view, however, an important work lies before the trade associations and pioneer firms in the various industries in persuading the more backward firms to realise the importance of scientific costings, without which the most efficient and economic management is impossible.

Trade associations' statistics.

The collection of essential data by trade associations for the benefit of their members is a matter to which we attach great importance. Among the staple industries, figures of the output of pig-iron, steel and rolling mill products are published monthly by the National Federation of Iron and Steel Manufacturers; figures relating to the output and work in hand of the shipyards are published quarterly by Lloyd's Register; and certain figures as to the progress of the cotton industry are published twice yearly by the International Federation of Master Cotton Spinners' Associations. In some of the newer industries, e.g., various sections of the electrical industry, the compilation of statistical data has made progress. We understand that, particularly in certain branches of the textile industry, a considerable advance has been made lately, as for example by the establishment of the Cotton Trade Statistical Bureau at the Manchester Chamber of Commerce. In many other trades, however, our impression is that the position is backward compared with corresponding trades in the United States, due partly to the fact that many British firms show a degree of reticence and unwillingness to disclose business results, even in confidence to their own trade associations, which is greater than what is ordinarily met with in America. In this matter we have been greatly impressed by the more liberal attitude of the leading American business men, who appear to exchange information about their own proceedings with what would in this country be regarded as extraordinary frankness. Of course there are limits to the extent to which it is prudent to disclose to others the details of business results, but we have formed a strong opinion that the secretive traditions of many British firms, which is only one

phase of their general reluctance to co-operate in trade matters, is a real hindrance to industrial efficiency, and blocks the way to all lines of advance which require frank disclosure as a preliminary.

If and when this prejudice against the supply of information can be overcome (and we realise that a long process of education will be necessary before this can be achieved), a wide field of practical usefulness will be opened up for trade associations which at present they are unable to explore.

We note with satisfaction that, so far as statistics of production are concerned, the efforts of the Board of Trade to secure information in connection with the new Index of Productive Activity has helped some trade associations to secure and compile useful figures. It is to be hoped that progress on these lines will also be made by other industries.

We may add that, in connection with the recent Economic Conference at Geneva, we have been struck with the want of uniformity in the statistical methods employed by the great trade associations in different countries, and the great consequent difficulty experienced by the Preparatory Committee for that Conference in arriving at really comparative results. We cordially support the recommendation of the Conference that the question of securing greater comparability in this matter should be explored by the statistical section of the League of Nations in concert with representatives of the trade associations.

Official Statistics.

We now turn to what for the purposes of our inquiry is the most important question in connection with the publication and use of economic statistics, viz., the scope and quality of the statistical reports and returns compiled by departments of the Government. Our volume entitled " Further Factors in Industrial and Commercial Efficiency " contained a chapter describing the official information and statistics on industrial and commercial subjects at present published by various departments, and comparing the present position in this respect with that which obtained before the war.* We do not think it necessary here to reproduce or to summarise this information, or to make detailed recommendations as to the maintenance or suppression, or as to the extension, curtailment or improvement, of particular statistical returns.

We are, of course, only concerned with economic statistics, and as regards this category we desire to pay tribute to the general excellence of the statistical services provided by the various departments. The criticisms which we have received with regard to the quality of official statistics have been comparatively few and unimportant,

* " Further Factors in Industrial and Commercial Efficiency," p. 268. See also Introduction, p. 33.

apart from complaints of delays in publication or demands for an extension of the scope of official statistical inquiries. The desire expressed by a few witnesses for the publication of further details in the trade accounts was offset by the criticism made by others that the published figures already furnished unnecessarily detailed information to their foreign competitors. In this connection, there seems to be a good deal of ignorance as to the opportunity afforded to British traders to obtain additional information necessary for their business, beyond what is published in the trade accounts, by subscribing to the Customs Bill of Entry.

Date of publication.

We have convinced ourselves that the delay in publication (e.g., of the Annual Statement of Trade) is not attributable to any deficiencies or neglect on the part of the statistical departments, but is solely a question of expense, as the process of speeding up publication would involve greater expenditure on staff and overtime. We have expressed in the introduction to the volume mentioned above* the strong view that the postponement of the date of publication of information which is of practical interest to the commercial and industrial world is not a legitimate method of economy, as the comparatively small saving thereby effected may be purchased at the expense of a serious reduction in the practical utility of the information. We strongly recommend that all cases in which there has been increased delay in publication as compared with the pre-war standard should be reconsidered from this point of view.

Public utilisation as affected by price, &c.

Before considering the question of the extension of the scope of government statistics, we wish to express the earnest desire that the existing services should be more widely and intelligently utilised by the industries themselves. It has not infrequently happened that witnesses who have put forward demands for improved and extended government statistics showed themselves to be very imperfectly informed as to what data were already published. For this the traders are only partly to blame. A considerable share of the responsibility must, in our judgment, attach to the government authorities who control the conditions under which government publications are placed on the market, including the fixing of their prices. We are aware that we are here touching a matter of which some aspects are outside our reference, and we wish it to be clearly understood that what we say applies not to government publications as a whole, but exclusively to those which have a direct bearing on trade and industry. Confining attention to this category of returns, we are not satisfied that the present system on which the sale prices are

* " Further Factors in Industrial and Commercial Efficiency," p. 35.

fixed is well devised in the public interest. According to a statement furnished to us by the Treasury at our request, "the policy followed is to secure the widest possible publicity for all publications consistent with the avoidance of loss to public funds." In order to give effect to this policy, prices are fixed on the basis of the cost of composition, presswork, and paper, on the assumption that the whole of the number of copies printed are sold. This rule, we are glad to note, is sometimes departed from, so as to reduce the prices of certain official publications. Nevertheless, it remains the general rule, and it will be obvious that its practical effect must be to raise to a very high figure the price of statistical publications for which the demand is likely to be small. This is defended by the Treasury on the ground that the sales of statistical publications of the kind with which we are concerned are, in the main, restricted to the Press, local authorities, trade associations, libraries, and societies, and that the general public rely mainly for their knowledge of official statistics on the Press. For this reason, we are told, "it does not seem justifiable that the general taxpayer should be called on to subsidise such publications."

There is no doubt from the figures of sales supplied to us that the actual sale of some of the more elaborate statistical publications (e.g., the Annual Statement of Trade) is, and always has been, relatively small; and it is equally true that the raising of the price of these volumes sixfold since the war has had but little effect on the number sold. Nevertheless, we doubt if the present price policy is really defensible on any ground of principle. For it must not be forgotten that the cost of printing these returns is a very small fraction of the total expense incurred in their production, including the salaries of the departmental staff engaged on statistical work. Obviously, it would be out of the question to fix the prices of government statistical publications so as to be self-supporting in the real sense of the term, and, this being so, the system of price-fixing according to the cost of printing and production appears to us to be a purely artificial rule which may work well in some cases but which certainly works badly in others. We note that the same system was tried in connection with the statistical publications of the League of Nations, but was found to lead to such anomalous results that it has been abandoned in favour of a charge based on the number of pages. We note also that, while the charges for official publications in France and Germany appear to be at least as high as in Great Britain, they are very much lower in the United States, which for years has pursued a very liberal policy in this respect, based on the idea that the major public interest is to increase the number of readers and users, and that in comparison with this object the question of the net gain or loss to the taxpayer from the lowering of the price is of subordinate importance.

While appreciating fully the desire for economy which has led to the adoption of the present policy in this country, we feel strongly that the savings thereby effected are outweighed by the grave

disadvantage that the high level of price is an obstacle to the wider use of essential statistics, and a handicap to those who perform the public service of studying official statistics and making them widely known. It is also a serious discouragement to those who voluntarily serve on official committees if the volumes embodying the results of their labours are rendered inaccessible to the public by reason of their cost. We therefore recommend that the principles on which the prices of official publications of interest to industry and commerce are at present fixed should be reconsidered in the light of the above observations.

It is only right to add that we as a Committee have nothing to complain of in respect of the prices at which our various volumes have been published, and we should like to take this opportunity of expressing our appreciation of the helpful and sympathetic attitude which the Treasury and the Stationery Office have throughout shown towards the wishes which we have expressed in this and other matters. We believe that the experiment of publishing our volumes at a moderate price has been amply justified by its results on sales*, and we hope that this success will encourage a more adventurous policy with regard to the prices of many other official publications.

Scope.

Turning to the question of the extension of the scope of official statistics, we indicated in the introduction to "Further Factors in Industrial and Commercial Efficiency,"† that in our view the effect of the sudden interruption of statistical activity by the war had at least had the advantage of compelling a re-examination of the whole field of statistical activity, a process which was in many respects salutary. We do not think it necessary in the present Report to discuss in detail the results of this re-examination, but we desire to call attention to certain classes of important economic data, on which we have been convinced by the evidence before us, or by our own experience in the course of the present inquiry, that there is urgent need for an immediate enlargement of the scope of official statistics.

In passing we may mention that during the course of our inquiry it came to our notice that the statistics annually published by the Companies Department of the Board of Trade, while showing the aggregate capital of all limited companies, did not show the division of this total as between private companies and other companies respectively. We are glad to record that, following representations on the subject which we made to the Board of Trade, figures showing the aggregate capital of private companies and of other companies registered in Great Britain have been included in the statistics relating to the years 1926 and 1927, and we understand that they will form a permanent feature of the annual statistics in future.

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* See p. 6 above. † p. 34.

(i) *Statistics of industrial output.*—On this subject we have already submitted a memorandum to the President of the Board of Trade, dated July 21st, 1926. That memorandum was published in full in the volume to which we have referred above,* and we have nothing to add to the recommendations contained therein, which were shortly summarised as follows :—

(*a*) That it is very desirable that percentage figures should be published periodically at suitable intervals by the Board of Trade as indices of the movement of industrial production generally.

(*b*) That it is also desirable that separate indices of production should so far as practicable be compiled and published with regard to any important groups of industries which raise no objection to such publication.

(*c*) That in order to allay any possible anxiety, the Board of Trade should give a public assurance that the confidential nature of returns relating to individual undertakings will be as fully respected as if they had been called for under the compulsory powers conferred by the Census of Production Act.

(*d*) That, in order to be of as much value as possible to the business community, the figures should be published at the earliest possible date after the end of the period to which they relate.

(*e*) That an endeavour should be made to induce the trade associations to collect as many as possible of the necessary particulars voluntarily from their members. The final figures should, of course, be calculated and published by the Board of Trade.

We are glad to observe that the Board of Trade have already found it possible to act on these recommendations by publishing at quarterly intervals indices of industrial activity which will serve to bridge the gap between successive Censuses of Production. The figures already published in the " Board of Trade Journal " cover the year 1927 and the first three quarters of 1928.

As regards the frequency of the Census of Production itself, we understand that, whereas before the war provision was made for the holding of a census every five years, the legislation now in force, which was passed during the war, leaves the date of each census to be determined by the Board of Trade with the consent of the Treasury. One of the recommendations adopted at the International Conference on Economic Statistics which was held at Geneva in December, 1928, provides that in all countries where industry is sufficiently developed a census of industrial production should be taken at least once in every ten years, or preferably once in every five years. We feel that

* " Further Factors in Industrial and Commercial Efficiency," pp. 297–301.

so far as this country is concerned there is a strong case for holding a census of production every five years, and we strongly recommend that this should be arranged.

(ii) *Statistics of Wages.*—The Ministry of Labour keep the course of wages under continual observation, and record changes in the "Ministry of Labour Gazette." Very occasionally wider enquiries have been carried out as to the level of wages or earnings on a scale which amounts to a voluntary wages census. We have found the information thus available as to the trend of wages of great value in our inquiry, in spite of its limited and imperfect character, and we think that in view of its importance it would be desirable that the Ministry should at least once in every five years conduct a voluntary census of wages rates and earnings, by occupation and by industry, on comprehensive lines. In addition, we recommend that the Ministry should compile and publish at suitable intervals a series of wages index numbers which will serve to bridge the gap between successive censuses of wages, just as the new Board of Trade indices of industrial production will bridge the gap between successive census years. The greater part of the material necessary for the construction of such an index number (which would relate to wages rates and not to actual earnings) is already in existence, and what we recommend would only involve an extension and development, and a classification by industries, of the figures for wages changes already published annually in the "Ministry of Labour Gazette."

(iii) *Statistics of Profits.*—Figures showing the general movement of profits are no less necessary than the corresponding indices of production, prices and wages, in order to give an adequate indication of the industrial and commercial position and to enable its future trend to be estimated with the least chance of error. It was shown in a previous volume that for this purpose statistics of the return on capital are of very little use, in view of the extreme difficulty of determining the precise meaning and measurement of industrial capital for the purpose of the comparison. The inference was drawn that "the interpretation of statistics of industrial profits per unit of capital is so difficult and hazardous, and subject to so many qualifications and reservations, that it seems impossible to find any firm ground on which to base definite conclusions."* We therefore adopted the alternative method of calculating profits on the basis of turnover, not because we were unaware of the difficulties of this method, but because we were convinced that "for purposes of general comparisons the new difficulties are on the whole less formidable than the old."†

It is of course true that the method of relating profits to turnover can only be usefully applied to mass figures of great groups of industries, since special branches of industry, and still more individual undertakings, differ so greatly in respect of their circumstances tnat

* "Factors in Industrial and Commercial Efficiency," p. 49.
† Ibid., p. 50.

no inferences could be drawn from comparisons of their respective rates of profit on turnover. In particular, this method would greatly exaggerate the apparent rate of profit in "process" industries, which do not include in their turnover the value of the principal materials on which the processes are performed. If, as we recommend, steps be taken to compile and publish periodic statistics shewing the movement of profits on turnover, great care should be taken to avoid publishing them in a form which would lend itself to misleading comparisons, and for this reason we are disposed to think that the only figures published should be annual indices of profit movements for each of a number of selected groups of industry and for the whole of these groups combined.

We attach great importance to the regular compilation and publication of a statistical index of profits of this nature, and we are glad to know that abundant data for compiling such statistics are in the possession of the Commissioners of Inland Revenue. Up to the present, however, the only published figures derived from this source are those contained in the valuable memorandum submitted by Mr. W. H. Coates to the Colwyn Committee on the National Debt and Taxation, of which an analysis was contained in "Factors in Industrial and Commercial Efficiency."* Mr. Coates's memorandum covered only a single post-war year, 1922–23, and to repeat the investigation each year would no doubt involve an appreciable annual expenditure, though this, we are assured, would be very much less than the initial cost of the inquiry. In our judgment, some of the results yielded by such an annual return would be of substantial value to the Inland Revenue Department itself, and, if this be duly allowed for, the extra cost of the work would be materially reduced.

It goes without saying that (as in the case of Mr. Coates's memorandum) the most scrupulous care must be taken to respect the confidential character of individual returns; but in spite of this limitation the results already obtained are so illuminating, and those to be expected from an annual repetition of the inquiry are of such great public interest, that we strongly recommend that an annual return should be published on the same general lines as Mr. Coates's tables.

Statistics of profits have also been frequently asked for for another purpose, viz., to assist the parties to a wages negotiation to ascertain what rate of wages an industry will bear. It must be frankly owned that a general statistical index of profits, while throwing valuable light on the general trend of industry, could have only a very general bearing on any specific negotiation with regard to the conditions of employment in a particular trade and area. Nor can we see that this particular object could be met by any practicable

* See pp. 50 and 460–7.

extension of the obligations of public companies with regard to publicity,* or by the application of any part of these obligations to private companies and firms.

We sympathise with the representations made to us that the absence of authoritative data as to profits often places the workmen's side at a disadvantage in negotiations, and it certainly permits all kinds of erroneous guesses and inferences to circulate without means of check or correction. It seems to us that the only effective means of removing this grievance is to carry out the recommendation which we have already made† that in all wage negotiations, whether or not the rates to be determined bear an automatic relation to profits, employers and their representatives should readily disclose all essential and relevant data in their possession, under proper safeguards for the preservation of confidence, either to the workmen's representatives or (as in the coal and the iron and steel Trades) to auditors jointly appointed.

Statistical indices.

Returning to the question of the compilation of statistical indices, we would observe that if the three recommendations made in the previous pages be adopted, the commercial and industrial world, as well as official and unofficial economic observers, will in future be continuously furnished with new and valuable information, hitherto unobtainable except by a process of highly conjectural estimates, with regard to the movements of three fundamental factors in the economic situation, viz., production, wages, and profits; and this, added to the data already available as to the movements of prices and employment, will go far towards making possible the construction of a satisfactory "economic barometer."

We should be disposed to doubt the expediency of incurring the risk of compromising the successful accomplishment of this important task by introducing at the present stage the much more controversial proposal, which has been urged in some quarters, for the compulsory collection of statistics of stocks. We do not doubt the importance of stock statistics, but we feel that considerable progress must be made in the process of educating the British business community, along the lines already suggested, before there would be any chance of obtaining compulsory powers for such a purpose, or of securing trustworthy statistics on a voluntary basis.

In the meantime it may be asserted without fear of contradiction that the satisfactory fulfilment of our three recommendations would mark an immense advance in the matter of fundamental economic statistics as compared with the existing position either in this or in any other country.

* On the general question of the obligations of companies with respect to the disclosure of the results of their operations, see p. 189.

† Page 99 above.

(8) Industrial Mobility.

Introductory.

" Mobility " in the widest sense of the term is the very breath of life to modern industry. Again and again, both in the present Report and in our previously published volumes, we have been led to return to this point; and more than once it has been found that the crucial test whereby to judge the merits or defects of some proposed measure or a customary practice is its tendency to promote or to impede industrial mobility.

In the concluding summary of the introduction to our " Factors in Industrial and Commercial Efficiency " we emphasised the essential nature and importance of " mobility " in a passage, part of which we think it desirable to recall.

" The vitality of modern industry, like that of an organism, is measured by its power of response to external stimulus and of self-adaptation to modified environment. ' Mobility ' (in this sense of the term) does not imply incessant or purposeless movement or change, and may be consistent with a high degree of stability and complexity of structure. But it does imply the power of spontaneous reaction to changes in economic conditions, and of internal modification and rearrangement to meet such changes. This is true both of the material and the human factors, of methods of business organisation and of relations among classes, as well as of the personal skill, enterprise and leadership which individuals bring into the common stock. . . .

" It is, therefore, a matter of supreme necessity in this period of rapid and insistent flux and transformation to maintain unimpaired the qualities of initiative and flexibility of temperament, the power of readjustment and adaptation, and the capacity for free and willing co-operation among all the partners in production and distribution. Any waning of these powers could only mean an increasing rigidity and ossification of economic structure, and a progressive enfeeblement of its vitality, for which no measures of external support or defensive organisation could compensate."

It is evidently of the highest importance for the purpose of the present inquiry to examine closely the principal factors which may impede industrial mobility, and thus impair the competitive power of British trade.

These factors may be grouped broadly under three heads: (1) impediments to geographical transference arising from such causes as the shortage of housing accommodation or the immigration restrictions of other countries; (2) impediments to industrial transference arising from imperfect and unduly narrow training, or from trade policy or rivalries, or " demarcation " rules and customs; (3) impediments to industrial or geographical transference arising

from personal defects of initiative and indisposition to face change or risk, including the possible deterrent influence of social arrangements and services.

Of these various classes of impediments, some have been referred to in other sections of this Report. A few of the other principal factors in the problem are discussed below.

Housing in Relation to Internal Migration.

There is no question that one of the greatest hindrances in recent years to internal migration has been the shortage of houses. It is not necessary in this Report to enter into the question of the original sources and contributory causes of the house famine which has been so acute since the war. With the best will to move in search of a better market, labour has to a large extent been immobilised in areas where it could not be fully employed, by the impossibility of finding house accommodation elsewhere. We have been supplied by the Ministry of Health and the Scottish Board of Health with information as to the progress made in overcoming the shortage difficulty under the successive schemes of public assistance which have taken effect since the war. The figures show that between the date of the Armistice and June, 1928, about 1,121,000 houses were built in England and Wales, of which about 750,000 were built in connection with the various subsidy schemes. Of course a large part of this building is required to provide for the normal growth of population and to repair wastage. But the Ministry of Health consider that the result " must have removed to a considerable extent difficulties in regard to the mobility of labour, particularly as regards the case of the better paid worker." They add that " the great need at the moment is undoubtedly for the provision of houses for the less well-paid worker," and that this need is being pressed on local authorities.

In Scotland the progress made is much less satisfactory. The total number of workers' houses built in that country between the Armistice and June, 1928, was about 86,000, of which only about 9,000 were built without subsidy. The greater part of this building was, however, needed to provide for the replacement of wastage and other normal requirements ; and the Scottish Board of Health inform us that " in the larger industrial areas there still appears to be an acute shortage of working class houses, and even in many smaller localities the demand for such houses remains unsatisfied." The existing conditions accordingly would appear to be such as still to interfere with any mobility of labour which industrial conditions may admit.

Without going further into the figures, we may reasonably infer that in England and Wales the most urgent shortage has, on the whole, been met, though at a cost which must weigh heavily on the payer of rates and taxes for many years to come. In Scotland the housing situation seems still to leave much to be desired.

The aggregate expenditure on housing has undoubtedly been increased by the fact that the earlier building took place under conditions of exceptional difficulty owing to high prices, to which labour "demarcation" rules, and in some cases the restrictive policy of combinations, were contributory factors.

While, however, we deplore the additional burden on industry due to these causes, we fully recognise that by the end of the war the shortage of housing not only presented a problem of the very greatest social gravity, which urgently demanded a solution by all practicable means, but constituted a most serious menace to the power of industry to rearrange itself in accordance with the profound changes of conditions arising out of or accelerated by the war. We are far from suggesting that the difficulties of migration due to this cause are at an end; all that can be said is that their most acute phase, at least in England and Wales, appears to have passed. If, as we trust, the efforts to overtake the housing shortage are steadily maintained without relaxation, there is ground for hoping that want of houses will in the future constitute a diminishing factor in obstructing industrial mobility*.

Immigration Restrictions.

As regards the effect on mobility of the restriction of immigration by overseas countries we can add little to the account given of the present position in the introduction to our "Further Factors in Industrial and Commercial Efficiency."† It was there stated as the result of a careful analysis of the figures that "among the obstacles which hinder industrial emigration from Great Britain an important place must be given to the exclusive policy of the countries which in the past have been the main recipients of British emigrants," and that no schemes of Empire Settlement, as at present understood, can "afford an alternative outlet to British industrial emigration comparable with the outlet closed by the United States." Such schemes are mainly utilised by intending settlers on the land, and though they are of the highest value for the future development of the Empire, "land settlement overseas can make little contribution to the immediate problem of increasing the mobility of British industrial labour and promoting its more economic redistribution."

It would serve no useful purpose to discuss at length in this Report the merits and demerits of the restrictive immigration policies pursued by other countries. There is no matter which the countries concerned more tenaciously insist on treating as one of purely domestic concern than the determination of the conditions under which they will admit aliens to settle in their territories and mix with their population. Though in the case of the British

* See also page 153 above.
† See pages 28–30.

Dominions the vital questions of alien penetration and racial admixture do not arise in the case of migrants from Great Britain, it is clear that their present reserved attitude towards industrial immigration rests on considerations of social policy which, sound or unsound, are unlikely to be affected by any recommendations which we may make.

In these circumstances we are necessarily helpless as regards positive proposals for immediate action, and all we can do is to emphasise the very serious results of the partial stoppage of the outlets for industrial workers overseas in increasing the congestion and decreasing the mobility of the British labour market, and to express a general hope that full advantage will be taken of any suitable opportunity that may arise to endeavour to secure a widening of these outlets.* At the same time, we may point out that the urgency of the need for overseas outlets for our population is likely to be affected somewhat in the near future by the anticipated drop in the number of fresh entrants from school into the labour market of Great Britain.

Social Legislation as a Factor in Mobility.

The question of the possible effect of the Unemployment Insurance Scheme in deterring industrial transference has already been referred to in connection with the discussion of unemployment (see page 131). It was recognised that all schemes which succeed in mitigating the hardship of unemployment must have some tendency to diminish the incentive to seek work in other places or of other kinds, and that this risk ought to be continually in the minds of those who frame and administer the provisions of any scheme of this nature. It has, however, also to be recognised that some of the amendments which have quite recently been introduced into the Unemployment Insurance Acts have been framed with this object in view and seem, on the whole, calculated to diminish this particular danger.

A recent Committee of Inquiry has reported that the effect on mobility of other forms of social insurance, e.g., Health Insurance and Old Age Pensions, is negligible,† and we endorse their conclusion.

Before, however, taking leave of social legislation as a factor in mobility, a few words should be said of a very important public agency which is expressly designed to promote industrial and geographical mobility. The influence exercised in this direction by the national system of Employment Exchanges, especially where combined with the administration of Unemployment Insurance, is not always sufficiently recognised. It is true that in a long continued period of industrial depression like the present this influence is much

* For a discussion of the present problem of overseas migration, see the Report of the Industrial Transference Board, pp. 35–52.

† See " Further Factors in Industrial and Commercial Efficiency," pp. 242–3.

less powerful than in a more active condition of the labour market. But it cannot be doubted that under normal conditions a national system of inter-connected employment agencies must, if adequately supported, tend to give employers and employed a wider range of choice, without limit of locality, in filling vacancies or obtaining situations. Moreover, the Exchanges are empowered to assist the transference of a worker to a place where a situation has been found for him, by the advance of travelling expenses. Machinery of this nature if properly worked and fully used is well adapted to give workpeople the advantages of mobility without the actual hardship of tramping in search of work, especially if the Exchanges work in co-operation with the associations of employers and employed, who not infrequently have mutual arrangements for the recruitment of workpeople. But an indispensable condition of effectiveness for the purpose in view is that employers should habitually notify their vacancies to the Exchanges instead of only resorting to them on occasions of emergency. In cases where the only vacancies registered are the residue which cannot otherwise be filled, the contribution made by the Exchanges to the increase of industrial mobility is bound to be partial and disappointing, and this is especially true when as at present the total number seeking employment in many industries is largely in excess of the total vacancies available. Under such conditions the readiness with which employers can fill any vacancies that occur diminishes their incentive to report them to the Exchanges, while the comparatively low proportion of registered workpeople whom in such circumstances the Exchanges can place tends to impair their attractiveness and popularity. If the nation is to obtain full value for its expenditure on Employment Exchanges they must cease to be regarded as a device for dealing with emergency requirements, and must be used habitually by both parties to supply their normal needs.

The maintenance of the Employment Exchange service is essential to the administration of Unemployment Insurance, and for this purpose, if for no other reason, it is of national importance that as large a range of vacancies as possible should be available, both to test the *bona fides* of applicants for unemployment benefit and to diminish the drain on the unemployment fund.

Demarcation Restrictions.

Origin and causes.

Among the most serious obstacles to industrial mobility are the customary lines of demarcation between occupations which confine the skilled worker to a comparatively narrow range of operations and prevent him from performing others which are well within his capacity, while at the same time they constitute a formidable barrier to the ambition of the semi-skilled worker to develop and use his powers to the fullest advantage.

As already pointed out in our "Survey of Industrial Relations," demarcation restrictions are "a direct result of the growing differentiation and subdivision of productive processes which has been the outstanding feature of industrial development during the past century."* Subdivision of processes resulting from the introduction of machinery has been accompanied by specialisation of skill, with the general result that cost of production has been greatly reduced. A secondary result of specialisation, however, has been a growing inability to change from one skilled occupation to another, and the gradual dying out of the all-round craftsman. Hence, when in the ordinary course of industrial development the relative demand for different kinds of specialised skill is varied, the power of the specialised workman to vary his work is found to be greatly impaired. The resulting weakening of the power of industry to react to changed conditions affects very adversely the economy of production. So long as this result is simply due to the narrowing effects of over-specialisation, the problem is one of education. Unfortunately, the lines which separate kindred occupations have in many cases been greatly hardened by the growth of definite customs and trade rules which prevent those who follow one occupation from overstepping at any point its customary limits. Thus arises the problem of "demarcation", which in certain groups of trades exercises a very grave influence in raising the cost of production and weakening the competitive power of British industry.

The general problem of "demarcation" includes two different though allied questions, arising from (1) the contests between different skilled crafts for the "right" to various classes of work, and (2) the resistance of skilled workers to the admission of semi-skilled men into spheres of production formerly reserved to the skilled crafts. We regard these questions, however, as two aspects of the same fundamental problem.

The strongest evidence which we received with regard to the adverse effects on productivity and costs of demarcation rules and disputes between different classes of skilled workers related to the shipbuilding and engineering trades. The subject was discussed in our "Survey of Metal Industries,"† which traces the historical origins of the modern demarcation problems. "As vessels became progressively more complicated, further types of skilled craftsmen became necessary to deal with various specialised fittings and methods of construction, until to-day over thirty trades, in addition to labourers, are required to build a ship. The skilled men of these newer crafts, however, did not become merged in a general body of skilled mechanics. Instead, each craft took up the position that members of that craft, and they alone, must perform the type

* See p. 40.
† See pp. 153–4 and 391–4.

of work concerned, even though such work, through becoming more common in industry generally, or even in domestic life, might become such as members of several skilled crafts, or even semi-skilled men, could perform adequately. In other words a line of demarcation was strictly laid down for each craft by its members, and these lines have been jealously maintained. In the result, a position has arisen in which time is wasted and men idle, while jobs are left waiting for a tradesman of the proper craft to do his part."

Nature and limits of problem.

If historical causes and the fear of unemployment or wage-cutting go far to explain the motives underlying demarcation restrictions, it is abundantly clear that the multiplication and rigid enforcement of such restrictions are contrary to the public interest, and operate to the grave disadvantage of British trade. The evidence of employers on this point was emphatic. One example quoted was that of the construction and installation of ventilators in which seven crafts are concerned, some of them more than once. Another was a case of refrigeration installation where, though there was a temporary shortage of joiners owing to the demands of house building, all efforts proved unsuccessful to obtain the consent of the trade union to employ shipwrights (of whom there was a glut) on a job for which it was stated that they were perfectly competent; and the ship was delayed in consequence. In repair work where the question of time is sometimes of predominant importance demarcation rules and, still more, demarcation disputes may so raise the cost as to make competition with foreign yards impossible. The case of the " Queen Elizabeth," held up during the war owing to a dispute between engineers and boilermakers as to who should put the bolts in the turrets, was one in which more than industrial issues were involved. It is common knowledge that some of the most stubborn and prolonged trade disputes in the past have been not between employers and workpeople, but between two trade unions fighting to enforce their claims to a certain class of work, while the employers, indifferent to the result and only anxious to get on with the job, had to look on helplessly while chances of orders slipped past them to foreign yards.

The evidence of the mischief caused by demarcation rules and disputes was not confined to employers. A trade union witness representing semi-skilled workers expressed the emphatic opinion that demarcation trouble " is one of the greatest deterrents in British industry. It is the greatest thing you have to face in shipbuilding and engineering."

We do not wish to overstate the gravity of the position. It was fairly clear from the evidence that the chief seat of the difficulty, so far as concerns the great export trades, is in the shipbuilding and engineering industries. In the shipbuilding industry the trouble is caused mainly by the contests between different groups of skilled

craftsmen, whereas in the engineering trades the chief difficulty at present is between the skilled and semi-skilled workers. We understand that the building trades also offer striking examples of the mischief of strict demarcation rules, and though these trades are not concerned directly with export, the great expense of building (of which demarcation delays are one contributory cause) must weigh upon the overhead charges of the exporting industries.

Remedies.

The shipbuilding employers and many of the responsible leaders of the trade unions are fully alive to the evil, and a large part of the recent joint inquiry into the condition of shipbuilding was concerned with the exploration of methods of mitigating it. The mischief, however, lies deep, and it is easier to diagnose it than to find a cure. In the long run no doubt much may reasonably be expected from the broadening effects of better education in counteracting the narrowness due to over-specialisation, but this permeating influence can only operate slowly and gradually. If the trade unions among which the skilled shipbuilding craftsmen are now split up were consolidated in a small number of larger organisations, a mitigation of demarcation difficulties between different bodies of craftsmen might be expected in shipbuilding such as has been experienced in the engineering trades, where this process of consolidation has actually occurred. For difficulties of demarcation are on the whole likely to be less acute and intractable between different groups of members of the same trade union than between members of different unions.

The evil, however, is too serious and the need of a remedy too urgent to make it safe to trust wholly to the gradual operation of influences such as these. We therefore look with great interest and hope to the positive proposals for dealing with demarcation set out in the joint report of the shipbuilding employers and the shipyard trade unions issued in 1926. It is true that the detailed suggestions for this purpose (which were printed in full in our "Survey of Metal Industries")* were expressly stated in the report to be employers' proposals submitted for consideration, but they were prefaced by a joint statement of belief that "it is possible to secure greater elasticity and inter-changeability without infringing the broad principles of craftsmanship." An essential feature of the scheme is that where, owing to shortage of labour, craftsmen of one class are employed on work distinctive of another craft which is paid for at a different rate, the higher of the two rates shall be paid. Provision is also made that ancillary work not distinctive of any one class may be performed by any worker competent to do it, and that a craftsman who has begun an operation may complete it if competent to do so without calling in men of another class.

* See p. 393.

As already stated, some of the most acute demarcation difficulties, especially in the engineering trades at present, are not between two bodies of craftsmen, but between the skilled and semi-skilled workers. The development of semi-automatic machinery has of late made these difficulties more acute, and in order to meet them it is essential that arrangements on the general lines indicated above should be accompanied by suitable provisions to enable semi-skilled men to use their capacities to the fullest advantage without hindrance, as in the United States and in some large works in Great Britain. If this could be accomplished, the difficulties of demarcation would to a large extent disappear.

We feel, however, that an agreement to permit workpeople to perform a wider range of operations, if competent to do so, though constituting a very valuable improvement on the present situation, would be incomplete without effective provision to widen the competence of the workmen by a broader system of training. The method of working in force in H.M. Dockyards, which was also described at length in our "Survey of Metal Industries,"* and which met with a good deal of approval from trade witnesses, is based on a much wider system of training and apprenticeship than that which prevails in private yards. In effect there are three grades of workers in the Admiralty Dockyards, viz., craftsmen (who retain the old name of shipwrights but who practically perform any class of mechanics' work), skilled labourers (also freely interchangeable among themselves), and unskilled labourers. We are unable to say how far this simple system may be suited to the different conditions of private shipbuilding, but we cannot help feeling that the ideal at which to aim is to secure the maximum degree of interchangeability among the crafts and the maximum scope for the activities of the semi-skilled men, limited only by the test of personal competence, and by the provision of suitable conditions of remuneration. Even if all the craftsmen following an industry (other than those performing ancillary and non-distinctive work) were embraced in the same union and were freely interchangeable, they would naturally divide themselves into more or less specialised groups who in normal times would tend to confine themselves generally to work of a kind for which they were best fitted by their training and aptitudes. But from an industrial point of view they would be perfectly "mobile", because interchangeability would be complete. One advantage of such a system would be that it would encourage that broader system of apprenticeship which was indicated as desirable in the employers' note to the Joint Inquiry.

The full attainment of this ideal may still be distant, but every step that can be made towards it will increase the competitive power of British industry.

* See p. 394.

The Personal Factor.

It is possible that industrial mobility may at present be impaired, not only by the various external obstacles and hindrances which have been discussed above, but also by an increased personal unwillingness to face the risks and inconvenience of change. If, as many think, there is ground for believing that not only the power but also the will to adaptation has been generally weakened, such a weakening is evidence of industrial and social *malaise* which demands most serious consideration.

Unfortunately this question is not one which is capable of being brought to the test of exact statistical evidence, for comparisons are always complicated by the fact that the opportunities for economic transference have been greatly narrowed in recent years, and it is never possible to eliminate the effect of this disturbing cause.

We have, however, received a certain amount of evidence, based on actual personal experience and observation, in support of the view that, at all events on the commercial side, there is less willingness than formerly to accept even good offers of employment overseas. A large manufacturer who has his own selling organisation in all parts of the world informed us that, whereas twenty years ago there were many eager applicants from amongst his staff for every overseas vacancy, at present the reverse is the case; and he finds it difficult to induce men to take up posts abroad. He adds, however, that the younger recruits to his staff appear to show somewhat more of the old spirit of adventure. The evidence furnished to us on this subject is not unanimous, the experience of different firms varying considerably in this respect. It has been pointed out that the general deterioration of conditions which has occurred in the case of certain foreign countries (e.g., China) is an important contributing cause of any reluctance to accept appointments in those countries. Subject, however, to this consideration, and in so far as the case of the manufacturer mentioned above is representative, the situation to which it points is undoubtedly one of danger. The fact, however, that the newest recruits to business appear to be less affected permits a hope that the observed preference for safe and comfortable stagnation, as compared with the more risky attractions of the adventurous life, may be a transitory and not a permanent phenomenon; and that it represents not a definite deterioration of the national fibre, but the last remaining trace of "war-weariness," the reflection in the economic sphere of those psychological reactions generated by the war which have had such a marked effect on all departments of the national life.

While, however, there is reasonable ground for such a hope, there is none for facile optimism; nor is there any justification for a policy of drift, trusting merely to the healing and restorative power of time. So long as it persists the peril is grave and insidious; and even if the cause of depressed vitality may have passed away, its effects, unless strenuously combated, may become permanent.

We are under no illusion that anything said on this particular subject in our Report can of itself have a very direct and substantial effect on the national outlook and way of life. This is a matter that does not lend itself to a list of specific recommendations, and mere exhortation is very ineffective compared with personal leadership and example. We can only trust that those who hold positions of authority in industry and trade, as well as those concerned with the training of industrial recruits and the moulding of their character when still in the plastic stage, may fully realise their responsibilities in this matter of vital national concern.

Mobility in Relation to Management.

The problem of mobility in relation to the direction and management of industrial and commercial undertakings and the persons who hold positions of high responsibility in such undertakings, though differing in important respects from those aspects of the question which we have already discussed, is certainly no less vital and urgent.

Here the obstacles to mobility are not so much natural or artificial obstructions to free movement as defects of temperament, and of what we have elsewhere termed " the power of readjustment and adaptation and the capacity for free and willing co-operation."*

It is true that the qualities of adventure, initiative and breadth of view, which would lead a workman to seek the most appropriate geographical or industrial field for his activities and to overcome the obstacles which impede his transference, do not differ fu[redacted] from those which in a wider sphere of action would n[redacted] of industry unremitting in his efforts to adapt his e[redacted] methods to the changing conditions of economic [redacted] industrial technique. Conversely, the narrower and m[redacted] tive habits of mind which make many workmen cling [redacted] trade customs and distinctions, or to places where the [redacted] their services is dwindling, are the counterpart of ch[redacted] which have been noted in previous sections of this Re[redacted] only too common among those who are responsible f[redacted] management.

In dealing with such important factors in industrial [redacted] the rationalisation of workshop practice, the standa[redacted] products and processes, the higher training of manage[redacted] of business enterprises, the development and utilisation [redacted] research or commercial intelligence, and generally all fo[redacted] ciated and combined action for the purpose of more effic[redacted] tion or distribution, we have repeatedly been led to th[redacted] that at present one of the most serious obstacles to progres[redacted] sympathy on the part of persons holding responsible [redacted] industrial and trading enterprises with new ideas and [redacted]

* " Factors in Industrial and Commercial Efficiency," p. 66.

which involve a radical change of customary practice, or a new orientation of outlook. Besides criticising what seem to us the shortcomings of many manufacturers and traders in respect of such matters as these, we have, where we thought necessary, made recommendations with a view to bringing British practice at least up to the level of that of Britain's chief competitors.

On a review of the various sections of this Report which treat these subjects, it will be evident that most of the shortcomings which have met with our criticism have their root in imperfect "mobility"—using that term in its fullest sense, as the power of reacting promptly and energetically to external stimulus. While the fundamental source of the mischief is the same as that which hinders the use of the capacities of various classes of workpeople to the best social and economic advantage, the evil in the case of those occupying high and responsible positions in industry and commerce is more prejudicial to British competitive power, because its effects are more far-reaching, and in some ways more difficult to remember. The only real cure is such an increased breadth of view and clearness of vision as can only be expected to result from improved education.

But having said this, we feel that there is something more that in fairness should be added. We should have no confidence that improved methods of training could work the transformation which we desire to see, if we were not convinced that our race possesses in a high degree the natural qualities which constitute so to speak the raw material of effective industrial leadership. For these natural [illegible]lities the qualifications acquired through education can [illegible]bstitute. As a nation we are notoriously inclined to [illegible]ion, but it may be confidently claimed that in such [illegible] qualities of character and temperament as integrity, [illegible]men, sense of responsibility and fairplay, resolution and [illegible]oderation and tolerance, real originality and saving [illegible]nse, our fellow-countrymen are exceptionally well [illegible]These are the essential qualities of industrial leadership, [illegible]ey are lacking the best education in the world can only [illegible]perficial imitation of the real virtues.

[illegible]ot doubt that in comparison with the basic qualities [illegible]e stuff of which good business management is made, the [illegible]h have been criticised in this Report are but minor and [illegible]aws. Unfortunately, however, some of the qualifications [illegible]tish management is relatively weak are among those on [illegible]tionally severe demands are being made, and are likely to [illegible]be made, during the present period of rapid transition. [illegible]confident hope and belief that if to the natural qualities [illegible]e British business community is so rich, there could be [illegible]ater measure of receptivity to new ideas, of adaptability [illegible] conditions, and of mutual co-operation for common [illegible]e of business leader and manager would emerge who [illegible]ave his equal in any other country.

welfare, which are necessary or legitimate for the purpose of carrying on an undertaking on modern lines.

We have given careful consideration to the proposal to exempt profits put to reserve from income tax, but, while we recognise that the taxation of reserves may sometimes restrict development, we are unable to recommend that this concession should be made, as we see no means of safeguarding it from abuse.

Depreciation allowances—plant and machinery.

With reference to allowances for depreciation on industrial plant and machinery we received complaints from two points of view (1) that the annual rates of depreciation allowed in certain industries are insufficient to depreciate machinery and plant to scrap value within a period corresponding to the actual average life of the equipment, (2) that these rates applied to pre-war cost are inadequate to provide for the replacement of plant and machinery at the post-war level of prices. As regards the first complaint, we understand that the annual rates of depreciation are not prescribed by law but are determined in accordance with what the Income Tax Commissioners concerned "may think just and reasonable." The Income Tax Acts provide, however, that bodies of traders belonging to a particular industry may apply to a Board of Referees to fix allowances in relation to their industry; and, apart from this statutory procedure, we understand that definite rates for different classes of machinery have been agreed upon for uniform application (subject to the concurrence of the respective bodies of Income Tax Commissioners) in a number of important industries, as the result of applications by representatives of these industries to the Board of Inland Revenue. We are assured by those who have had experience of such applications that representations made by bodies entitled to speak for an industry receive sympathetic and reasonable consideration, and we are clearly of opinion that until the existing methods have been more fully tried there is no case for any change of procedure. The second question, viz., the inadequacy of existing depreciation allowances on pre-war plant and machinery to provide for renewals at post-war values, is more difficult, and, as appears from the evidence before us, is regarded by traders generally as much more serious. The difficulty is no doubt mainly a transitory one, arising from the great and sudden appreciation of prices as compared with their pre-war level. The problem, however, will probably not solve itself for a good many years, and meanwhile the hardship will remain. While the actual remedies suggested to us by our witnesses appear to give rise to considerable difficulties, we feel that there is a real grievance to be met, and we hope that the Inland Revenue Authorities will find the means of meeting it, especially in view of the vital importance of placing no obstacles in the way of the re-equipment of British industry with the most up-to-date plant and machinery.

Depreciation allowances—buildings.

Another matter connected with depreciation allowances which was brought to our attention in evidence related to depreciation of buildings used for manufacturing purposes. The present position in this respect is that, in addition to deducting as a trade expense his whole outlay on repairs, maintenance and insurance of his trade premises, the owner-occupier of trade premises which are peculiarly subject to depreciation (viz., mills, factories, and other similar premises), is allowed to deduct the whole of the annual value of those premises in computing his profit for assessment under Schedule D, notwithstanding that he pays tax, under Schedule A, on only a portion (not less than three-fourths or more than five-sixths) of that value. In other words, he is allowed every year, absolutely tax-free, an amount between one-sixth and one-quarter of the annual value of the mill or factory; and we understand that this allowance is regarded by the Inland Revenue Authorities as providing a sinking fund to replace the building. According to our evidence, however, it does not appear to be generally so regarded, or to suffice for the purpose; and it has been strongly urged upon us that there ought to be a specific allowance for depreciation, in the case of all industrial buildings, at the rate of 2½ per cent. of the written-down value. Such an allowance in our opinion would not only be equitable, but would make for efficiency by encouraging the more speedy replacement of unsuitable or obsolete buildings; and we, therefore, support the proposal so far as buildings used for productive industry are concerned. No doubt there will be some difficulty in determining the classes of buildings to which this allowance should apply. A similar problem, however, has had to be faced in connection with the recent proposals for the relief of productive industry from local rates, and we should be content to accept the line of demarcation adopted in connection with that scheme for the purpose of our present recommendation as to an allowance for depreciation.

Income tax on research and welfare expenditure.

As regards allowances for expenditure on research, welfare, superannuation funds, and similar objects, we have satisfied ourselves that the general principles on which the Inland Revenue Department bases its procedure are, on the whole, sound. We are, however, equally convinced that these principles are not understood by a large number of manufacturers and traders. It is perhaps natural that the Department should not as a rule advertise widely the reliefs that are available, but should leave traders to discover them by making their own applications or otherwise. The Chambers of Commerce and the great trade associations, which might be expected to make a special study of income-tax allowances for the benefit of their members, do not usually, so far as our information extends,

take active steps to educate the individual manufacturer with regard to the allowances which he may claim and the conditions applicable to such allowances. In any case, and whatever may be the cause, it is quite clear from the complaints addressed to us that there is much ignorance on the subject, and that if the business community understood more precisely the nature and extent of the rebates which they might claim they would find that the greater part of their supposed grievances would disappear. The question arises, what is the most effective method of disseminating this information? Explanatory pamphlets, issued by the Department, might doubtless be of value,* but such official statements, carrying with them full departmental responsibility, would naturally have to be so cautiously worded and guarded by so many exceptions and reservations, that we feel that something additional is needed which would be simpler and more direct, if less authoritative, than an official memorandum, and which would also be adapted to the special need and circumstances of particular trades. Accordingly, we consider that it should be one of the recognised functions of trade associations and Chambers of Commerce to diffuse among their members accurate information in simple language as to the income-tax allowances which it is open to them to claim in respect of these matters.

Taxation of Co-operative Societies.

The only other complaint connected with the incidence of taxation which was brought before us in evidence was the exemption from income tax under Schedule D which is enjoyed by "Mutual" Associations and in particular by Co-operative Societies. The present state of the law on this matter, and the recommendations that have been made thereon by recent Commissions and Committees of Inquiry, are described in our "Factors in Industrial and Commercial Efficiency."† While not underrating the importance of this question from the point of view of general taxation, we do not feel that it has a sufficiently close bearing on the problem of maintaining and increasing the competitive power of British industry to warrant us in making any specific recommendation thereon.

(2) Local Rates and Social Services.

Local Rates.

Turning from imperial taxation, we have to consider the burden on industry of other kinds of public charges, i.e., local rates and

* See Appendix II, p. 322, for a valuable statement supplied to us by the Inland Revenue Department, shewing the present position as regards the treatment, for income-tax purposes, of expenditure in connection with research, welfare, co-partnership schemes, and pension and provident funds.

† See p. 17.

"social service" charges.* The situation in a recent post-war year was described in our "Factors in Industrial and Commercial Efficiency,"† where the average burden on the exporting industries of all these charges taken together was estimated on the basis of the data then available as being in the neighbourhood of 6 to 8 per cent. of the total wages bill. The fuller data relating to production costs reviewed in "Further Factors in Industrial and Commercial Efficiency,"‡ showed that local rates and social charges amounted together to between 2 and 3 per cent. of total cost, or say from 7 to 10 per cent. of the total wages bill. Roughly, half of the total is accounted for by local rates, the incidence of which is of a kind peculiarly prejudicial to a depressed industry, the weight of the burden per unit of output actually increasing with the decrease of production. Since the publication of the volumes referred to, H.M. Government has initiated legislative measures for mitigating the burden of rates on industry by transferring a large proportion of the rates on manufacturing premises to Imperial taxation. In view of the discussions which have taken place on this scheme, we do not think that any good purpose would be served by entering into the complicated details of the subject. We need only observe that had not the Government's scheme been brought forward we should certainly have deemed it our duty, in view of the evidence summarised in the volumes mentioned above, to make some recommendation for the relief of industry from the heavy burden of rates.

As regards detailed questions of the incidence of rates on industry as at present assessed, a number of our witnesses representing important trade associations complained of the rating of machinery, but after looking carefully into the matter we consider that this long-standing grievance of industry has been satisfactorily settled by the Rating and Valuation Act of 1925, a measure which had either not been enacted or may have been too new to be familiar to these witnesses at the time when their evidence was prepared. Broadly speaking, this Act drew a distinction between machinery and plant for power, heating and lighting, etc. (which are to be included in the assessment for rates), and machinery and plant used for manufacturing and trade processes, which are not to be included in the assessment unless (like gasholders or blast furnaces) they are of the nature of a building or structure. Effect is given to these provisions by a detailed statement embodied in a Statutory Order, which sets out a list of the items of machinery and plant which are liable to assessment. Provision is made in the Act for the settlement of disputed questions arising on the interpretation of this list. Though it is impossible

* The social services here considered are the National Health and Unemployment Insurance Schemes, Workmen's Compensation, and the Widows', Orphans' and Old Age Contributory Pensions Scheme (operating from 1st January, 1926).

† See pp. 59–62 and 473–492. ‡ See Chapter II.

to draw any line of demarcation which will not give rise to any hard cases, the line drawn in the Act seems to us on the whole to be as satisfactory as could be reasonably expected, while the effect of specifying precisely the items of plant and machinery which are in future to be rateable should be to promote uniformity as between districts and to remove the differentiation of treatment which we understand was a common feature of the previous regime.

Other suggestions put before us were that some relief should be accorded in respect of improvements, e.g., dining and recreation rooms for the staff, or in respect of the buildings of industrial undertakings working far below their full capacity. As regards the former, it was urged that the full rating of improvements discourages progressive development. As regards the latter, it was represented that to levy full rates on an under-employed factory imposes a burden on the cost of each unit of output, which is oppressively great as compared with the works which are fully employed. It was further represented that the practice in this respect differs in different districts. While sympathising with these complaints, we find a difficulty in framing a recommendation for removing these specific grievances which would not give rise to grave risk of abuse. In connection with these and other proposals it has always to be remembered that every special exemption adds to the burden imposed on other industrial buildings. We are, therefore, reluctantly driven to the conclusion that the owner or occupier of improved premises or of a half-employed factory must look for relief to general measures for diminishing the pressure of rates on industry such as those to which we have already referred.

Social services.

As regards the so-called burden of the " social services," we may observe at the outset that the greater part of the cost of poor relief (namely, between £35 millions and £40 millions a year) is met out of local rates, a subject which we have already discussed above. The annual payments of employers in respect of other social services (Unemployment and Health Insurance, Workmen's Compensation, and Contributory Pensions) amount to about £50 millions. The resulting charge which enters into the cost accounts of productive enterprise may be estimated as being on the average rather less than one per cent. of the value of gross output, but the amount of these charges per unit of production does not (like that of rates) vary inversely with the prosperity of an undertaking. On the whole, the indirect effects of the social services on industrial efficiency and mobility are in our judgment much more important, in relation to the subject matter of our inquiry, than the direct burden of their cost. Nevertheless, this burden, though small in proportion to the aggregate value of the output of industry, may in certain cases be a very appreciable element in costs, and there is every reason for

continual vigilance to ensure the maximum of economy, both in administrative charges and in benefits, that is compatible with the efficiency of the services for the purposes for which they were instituted.

In particular, every effort ought to be made to ensure proper co-ordination and to prevent overlapping, e.g., between unemployment benefit and poor law relief* and between health insurance and compensation for injuries. Similarly, vigilance is necessary to secure that administrative charges shall not bear an undue proportion to the actual benefits disbursed—a matter that has been specially brought to our notice in connection with the insurance of liability for Workmen's Compensation.

The adequate examination of the precise means for attaining these ends, and generally for maintaining the efficiency of social service administration, would open up a wide field of highly technical and sometimes controversial problems. Fortunately, we are dispensed from entering on this laborious task by the fact that during the last few years each important branch of social services has been subjected to some form of authoritative inquiry. Lord Blanesburgh's Committee on Unemployment Insurance and the Royal Commission on Health Insurance have already reported, and legislation has been enacted in pursuance of their Reports. In 1923 the Home Office arrived at an agreement with the Insurance companies whereby in effect the ratio of administrative expenses to Workmen's Compensation payments is limited. It is public knowledge that, in addition to the investigations of the Royal Commission on Local Government, the whole range of Poor Law Administration has been under departmental review in connection with the proposals for legislation now under discussion. We have generally abstained from special inquiries which would have overlapped investigations known to us to be carried out by other public bodies.

The only definite recommendation, therefore, which on the evidence before us we desire to make for the purpose of reducing the burden of social services on industrial costs is that each important trade should give careful consideration to the practicability of adopting some form of mutual organisation for the purpose of Workmen's Compensation on the lines so successfully and economically worked in the cotton, shipping and mining industries. No doubt the mutual system will be found less suitable or practicable in some trades than in others, but the great saving in costs which in favourable circumstances has been shown to be attainable by this method, together with the evidence that certain trades which complained to us of the high cost of insurance premiums had never considered the feasibility

* See also p. 137 above

of the mutual method, lead us to believe that valuable results might follow, at least in certain cases, from the adoption of our recommendation.

Apart from this specific point, we are content to await the results of the thorough examination which has been applied in the last few years to each branch of "social service" administration, and to recommend strongly that such salutary examination should be repeated periodically so as to ensure that the services shall continue to respond to the real needs of the population to be served, and that they shall yield the maximum of public advantage at the minimum of industrial cost.

It should be added that the above conclusion is without prejudice to the view held by some of our members that the whole business of social and industrial insurance is highly suitable for national ownership and management. Some of the deterrent considerations applicable to life, fire and similar insurance (e.g., the danger of losing the valuable overseas business which at present forms an appreciable element in our "invisible exports") would clearly not apply, or would apply much less forcibly, to what is generally termed "social insurance." We do not consider that we have any evidence to warrant a general conclusion as to the relative merits of State and private management as regards the range of services under consideration. For the most part the question will be determined by the special circumstances and conditions of each case. Unemployment Insurance, Old Age Pensions and Poor Law are necessarily under national or local public management. As regards Health Insurance the present system is mainly one of private management under strict national control; in the case of Workmen's Compensation the question is at present an open one. In this field it has yet to be proved whether any excessive charges of private insurance companies can be best controlled by general agreement (such as that lately entered into with the Home Office) or by the competition of "mutual" clubs, or by amalgamation with Health Insurance, or by direct nationalisation.

Industrial and social effects.

We have indicated above that, from our point of view, the most important consideration is not the direct money cost of social services, but their effects on industrial efficiency. At present Great Britain occupies a unique position in this matter. In no other great commercial country, so far as we are aware, is there anything approaching the same public expenditure on safeguarding the standard of life of the working population and protecting them from the consequences of the various risks of life and industry. The estimated annual cost of social insurance, poor law relief, old age pensions and workmen's compensation is in the neighbourhood of £180 millions, and of this aggregate the total charge on national and

local public funds amounts, roughly, to one-half. The primary effect is to improve materially the well-being of the industrial population in ways in which such improvement could not have been achieved by individual effort except at enormously greater cost. The sense of security and the relief from suffering thus obtained is a national and personal asset of the highest value, which is often neglected in making comparisons of British wages and conditions of labour with those obtaining in other countries.

It has been represented to us, and we can well believe, that in the years immediately following the war, the existence of the social services referred to above saved the country from the worst forms of unrest; and it is evident that their influence at all times is in the direction of promoting industrial stability and diminishing discontent.

The question, however, has been frequently asked whether, in addition to the primary effects of these services, there are not also secondary effects which, though less immediately obvious, may in the long run exercise a profound influence for good or evil on the national capacity to maintain a high standard of living through overseas trade. Those who raise this question usually point to the sharp contrast between Great Britain and the other greatest commercial and industrial community, the United States, in the whole attitude towards risks, whether industrial, social or vital. To put the matter very shortly, the predominant American conception appears to be that the individual workman or manager should be highly remunerated and expected to earn what he receives, and that over and above the maintenance of his usual standard of life he should make his own provision against risks, or if he fail to do so should face the consequences practically unaided. The advantage claimed for this way of industrial life is that it puts the maximum pressure on the individual to do his best, and gives the maximum relief to productive industry from the load of inefficient workpeople or managers. Under it the most and the least efficient find their respective levels far more quickly than in this country, while it is expected that those who cannot be stimulated by the hope of promotion will at least be goaded to exert themselves by the ever present fear of dismissal. We do not doubt that the ruthless application of this doctrine has been an important factor in producing the very striking results shewn by the per capita output of American engineering and metal works.

There is, however, a darker reverse side to the picture, which is more and more attracting the attention of thoughtful American observers; and it would be unwise to look to present-day American practice in these matters as a model for imitation by a country like our own, with a civilisation so much more complex and so different in character. There is every reason to expect that the tendency in the United States during the next few years will be

towards the wider recognition of the wastefulness and baneful effects on industry of leaving excessive risks uncovered. The movement initiated by Mr. Hoover for the reduction of the colossal waste which has characterised American industry, the campaign to reduce the excessive " turnover " of labour which is the inevitable concomitant of the present system, and the organisation of welfare and social insurance funds by some of the greater industrial undertakings, are all significant indications of the direction in which opinion and practice are moving on the other side of the Atlantic.

Meanwhile, it would be wise for us not to ignore the lesson to be derived from existing American practice, for, just as there is a point beyond which excessive exposure to risk ceases to have any salutary effect and induces a gambling habit of mind inimical to social and economic well-being, so it must be admitted that there is a point beyond which it is socially inexpedient and unsafe to relax all the restraints and incentives which are rooted in apprehension and risk, by sheltering the individual from the results of all the changes and chances of his industrial life.

SECTION VIII.

BRITISH CUSTOMS POLICY IN RELATION TO COMPETITIVE POWER.

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VIII. BRITISH CUSTOMS POLICY IN RELATION TO COMPETITIVE POWER.

(1) Governing Conditions of Tariff Policy.

In the section of this Report dealing with the means of access for British trade to overseas markets (pp. 14–27), we have discussed those aspects of British tariff policy which are directly concerned with the maintenance and improvement of those means of access, e.g., tariff negotiations and commercial treaties, including the question of the establishment of " tarifs de combat " for the express purpose of facilitating negotiations, together with the kindred question of tariff retaliation. The question of Imperial preference as furnishing a motive for British tariff policy has also been examined.

We have now reached a point in our analysis of the conditions of industrial and commercial efficiency and costs when it is desirable to resume the discussion of British tariff policy at the point at which we left it, and to consider its bearing on the general problems of British competitive power, as distinct from those special aspects which have been already reviewed. At the outset of our discussion it is desirable to consider certain governing conditions which necessarily dominate the problem.

The first of these governing conditions is the essential dependence of Great Britain on external trade.

We have referred elsewhere to the fact that in the forty years 1881 to 1921 the population of Great Britain increased by 13 millions, or about 43 per cent., whilst during the same period the proportion of the occupied population engaged in agriculture fell from over 12 per cent. to about 7 per cent. This growing dependency on overseas supplies for the essential means for existence was met up to the war by a corresponding increase in the proportion of the occupied population engaged in manufacturing industries, although during the same period other countries were pressing forward their industrial developments. During this time of change, the freedom that British industry has enjoyed of being able to secure, at the minimum of cost, everything produced in other countries which is useful to our life and industry has played a considerable part in facilitating the necessary re-adjustments and adaptations. Broadly speaking we have had no Customs barriers, other than revenue duties against the exchange of our products, whether manufactured or semi-manufactured articles or coal, for the raw materials or manufactured goods that the countries with which we trade have been able and willing to offer in exchange. The flow of trade, both inwards and outwards, through our ports has also been less hampered by Customs formalities than is the case in the ports of other nations.

In our international trade generally, up to the war, the growing volume and value of our net imports was accompanied by a corresponding increase in the volume and value of our exports of British products. The fall that has occurred since the war in the ratio of exports of British products to net imports has had to be balanced in an increasing degree by the value of services and other "invisible exports," and, although so far we have secured the imports essential to the maintenance of our standard of living, we have failed to ensure sufficient and continuous employment in most of our exporting industries, and we have reduced by more than one half the annual credit balance on our total international trade, that in pre-war years was available for investment overseas.

The causes of our failure since the war to maintain our exports at a sufficiently high level have been examined in the other sections of this Report, where it has been made clear that the only practicable remedy is to restore the competitive power of British trade in overseas markets. This situation is one which must necessarily exercise a far-reaching influence on British tariff policy.

Before passing to other considerations governing tariff policy, it is necessary to turn aside to examine an argument which is frequently used and which if valid would automatically negative all efforts designed to improve British trade and employment by increasing the demand for British goods as compared with imported goods in the home market, whether such efforts were based on Customs duties, or on propaganda campaigns to encourage the buying of British goods, or on improved methods of production or marketing. The argument, stated baldly, is that, as international trade consists essentially in an exchange of commodities, the replacement of an imported article by one of home manufacture must automatically reduce exports by the amount previously sent in payment for the commodity which has ceased to be imported. The facts of the balance sheet of international indebtedness, however, are far from being so simple as the argument in question requires. The items which figure in the international accounts include not only exports and imports of material commodities, but also the so-called "invisible" exports, which consist of shipping, insurance, and other immaterial services. Nor do the outflow and inflow of the commodities and services balance one another in value, the discrepancy, which in some years amounts to a large sum, being accounted for by the outward and inward movements of capital for investment, and of interest on the capital already invested. In the case of Great Britain in pre-war years the net result of these movements of capital and interest was always a large outward balance, which in the years immediately preceding the war is estimated to have exceeded £150 millions annually, roughly equivalent at present prices to between £200 and £250 millions. At the present time the net annual outflow

of capital is less than £100 millions.* The shrinkage in the amount of British capital annually invested overseas (which is nearly as great as the whole reduction in our national savings) is intimately connected, whether as cause or effect, or partly as cause and partly as effect, with the shrinkage of our export trade in the post-war period. On the whole, it seems probable, on an examination of the facts, that in the present conditions the reduction of our export of capital is to a greater extent a result than a cause of the decline in British export trade.† This being so, a reduction in imports caused by the strengthening of British trade in home markets might be balanced by an increased export of capital. In that case there would be no decrease in exports; and in this connection it is to be remembered that overseas investment has in the past proved to be a powerful means of increasing the eventual overseas demand for British goods. Such a course of trading assumes, of course, that goods or services representing the return on the capital so invested will be imported into this country.

It has been necessary to make these observations because in dealing with British customs policy in relation to competitive power we do not think it possible to assume that the replacement of an imported article by one of home manufacture must automatically reduce exports.

The second governing condition affecting tariff policy is the immense importance of stability and continuity. Stability and certainty are vital to trade. Both our own personal experience and the evidence before us shew clearly the essential importance which British manufacturers and traders attach to these factors in all that concerns their costs and their enterprise.

Frequent changes and fluctuations in the charges which a trader has to pay for necessary materials and services, or in the market prices obtainable for his products, upset his calculations and forecasts and impair his competitive power, sometimes even to an extent more serious than the mere increased burden of these charges.

We have seen‡ a good example of the value attached to stability in the general recognition by traders of the advantage of the certainty and regularity of service and equality of incidence of rates guaranteed by "Conferences" of Shipping Lines. Exactly the same principle obtains in regard to Customs tariffs. There may be room for argument as to the precise incidence and effects on traders and consumers of the rates of duty of a general tariff, but there can be no question of the damage done to trade by frequent tariff changes. This fact, which is fundamental to the practical consideration of British tariff policy, has been recently forced upon the notice of the

* i.e., in 1927, the latest year for which figures are available.

† See p. 44 above. ‡ See pp. 60 et seq.

commercial communities in other countries, and particularly in those of continental Europe, by the bitter experience through which they have passed since the war. Partly arising from the ultra-nationalism in economic outlook which was one of the legacies of the war-fever, but mainly owing to the violent fluctuations of exchange, the variations of rates of Customs duty which have taken place over a great part of the world since the war have been unprecedentedly numerous and frequent.

The Geneva Economic Conference of 1927, representing no less than fifty countries, declared expressly that " one of the most formidable obstacles in the way of establishing and developing permanent and secure trade relations between countries is the instability of tariffs."* The Conference recommended " that states should refrain from making frequent or sudden changes in their Customs duties, on account of the instability which such changes cause in trade relations, and the serious difficulties or disputes which they occasion in connection with the execution of contracts already concluded."†

The cordial support given by the British delegates to this important condemnation of instability was certainly due in part to their vivid realisation of the grave damage suffered by British export trade, since the war, from the vicissitudes of foreign tariffs. But they doubtless also appreciated the importance to our own traders of maintaining stability in British tariff policy, so as to afford the necessary foundation for business confidence and competitive power.

It follows from these considerations that no substantial change in the basis of British Customs duties is justifiable unless there is evidence of such widespread support as will afford a reasonable prospect of stability. Unfortunately, for historical reasons, British tariff policy has for many years been the subject of political and party controversy, so that, quite apart from merits, it is difficult to obtain any assurance that changes introduced by one government may not be repealed by its successor. The difficulty thus created must not, however, be exaggerated. There are few, if any, commercial countries in which politics play no part in tariff construction, and indeed it is obvious that a question so vital both to trade and to the revenue cannot possibly be divorced from general policy. The idea which is suggested from time to time that the tariff can be " taken out of politics " is proved by all experience to be chimerical. Nevertheless, it is important to observe that the special conditions of each important commercial country have given rise to what may be called a " national type " of tariff policy, which has run like a continuous thread through all the kaleidoscopic changes which the actual Customs tariff has undergone under successive political

* Report of Conference, p. 26. † Ibid, p. 27.

regimes. This " national type " forms a sort of " norm " or standard about which current tariff policy oscillates, and towards which in the long run, in spite of all vagaries, it is forced to return by the continued pressure of basic economic conditions.

In the case of Great Britain these have already been described.* Briefly they are that we are an island people dependent for life and employment on the free inflow of imports of food and materials from overseas. The historic type of tariff policy dictated by such conditions is *in the main* a tariff for revenue, subject of course to certain qualifications, of which perhaps the most vital, and the most generally accepted, is the necessity of ensuring the maintenance within the country of certain special industries essential to the national existence in times of emergency (see p. 273 below).

A second important qualification which has received widespread and growing acceptance is the necessity of recognising that Great Britain, though geographically an island, is politically part of a widely scattered Commonwealth whose development is vitally dependent on turning to the best account the resources of the whole. Many of the nations of the Commonwealth have already recognised this solidarity of interest in the most practical manner by according a preference to British goods as compared with those of foreign origin.

Reference has already been made† to the great value to our trade of preferential access to Dominion markets, and to the importance of reciprocating in some adequate and suitable manner, not only as a gesture of goodwill, but as one means of ensuring that the preferences we at present enjoy shall be maintained. It has been indicated that the fundamental conditions governing our economic life forbid reciprocation by the precise means which some of the Dominions might prefer, and make it impracticable to construct the United Kingdom tariff primarily with a view to the extension of Imperial preference. Nevertheless, the aim of reciprocating Dominion preference by all suitable means which are consistent with the essential interests of the population of Great Britain is one which, in our judgment, should be regarded as a necessary qualification of the normal " type " of British tariff policy, even if it cannot be the basis of that policy.

When we go beyond these two important, and indeed essential, qualifications, we find ourselves in an atmosphere of unsettled controversy. We are in fact confronted with several other interesting and important proposals affecting the principles of tariff policy, none of which commands at present anything approaching general support. One such principle, i.e., the use of the Customs tariff as a " tarif de combat " for purposes of tariff bargaining, we have already

* See pp. 8–12 above. † See pp. 22–5 above.

examined.* Another, which proposes to use Customs duties for the purpose of equalising conditions of labour cost, is considered below:† A third, which aims at strengthening the position of British manufacturers in the home market, is also separately examined later.‡ All these proposals, however, are the subject of live political controversy, and, while we hope to be able to submit conclusions thereon on grounds independent of political considerations, we are bound to take into account the fact that the evidence of representative traders and associations afforded no such evidence of general agreement on tariff policy as would justify the anticipation that a spectacular change of policy in any direction would satisfy the test of stability.

Very few of the representative trade witnesses were authorised by their associations to express any opinion on tariff policy—a fact which indicates (as indeed was frequently stated) that there was a sharp division of opinion on the subject among the members of the trade. Where opinions were expressed by witnesses either in their personal or representative capacity, these views were frequently confined expressly to the effects on their own industry of the levy of customs duties on imported competing products, without as a rule taking into account the effects of a general tariff§ on industry as a whole, or the results to their own trade of extending protection to other industries. Even from this restricted point of view, the views expressed by trade witnesses, whether in their personal or representative capacity, were conflicting. For example, the trend of evidence from the cotton trade was strongly against, while that from the iron and steel and engineering trades was on the whole, and with some exceptions, favourable to, tariff protection. The wool trade was described as divided on the subject, and the chemical industries as fairly satisfied with the present position, which in the case of certain of their products includes an element of protection.

Of course, the very inconclusive and ambiguous nature of the evidence furnished to us by the trades on so important a point does not in any way imply that the question of the effect of import duties on their interests has not been seriously considered by them.

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* See pp. 16–18. † See p. 268. ‡ See p. 274.

§ In order to avoid confusion and misunderstanding, we desire to make it clear that in all that follows we use the expression " general tariff " in the sense in which it is currently used in this country, to mean a tariff of duties generally applicable to all important categories of imports except those for which there is considered to be a special case for exemption. It is thus distinguished from the tariff built up of duties for each of which a special case has to be made, on the ground either of revenue or of exceptional conditions. In continental practice, however, it has become usual to employ the term " general tariff " in a quite different sense, viz., to denote the duties applicable to imports from such countries as do not enjoy the benefit of the lower tariff rates which apply, by Convention or otherwise, to imports from the most favoured countries.

The inference, however, which we are entitled to draw is that there is no strong and general trend of organised commercial opinion in favour of any material change of national tariff policy. Such views as were put before us were almost entirely sectional views, based on the peculiar situation of some particular industry. We need hardly say that evidence of this nature is wholly insufficient to justify the recommendation of a general tariff, even if on other grounds we were in favour of such a measure.

(2) The Objectives of Tariff Policy.

(a) *The Equalisation of Labour Conditions.*

A principle of tariff policy which finds many advocates is the fixing of rates of Customs duty so as to neutralise or "countervail" unequal (or as is usually said "unfair") conditions of competition arising from lower wages, longer hours of labour, or generally from inferior conditions of employment in the country from which imported goods are derived. This policy, which at first sight presents many attractions, will be found on careful examination to cover two widely different, and as we believe mutually incompatible, ideas—(1) the penalisation by special customs duties of the importation of goods made under conditions which conflict with an international agreement to which both the importing and exporting countries, or at least the former, are parties, (2) the equalisation by means of Customs duties of the labour cost of production of imported goods with that of the same goods produced in this country. It will be noticed that not only the methods of procedure but the standards of comparison to be employed differ essentially in these two cases. In the former, the minimum standard infringed is that generally laid down in an international agreement as applicable to the conditions of the country of export, and the imposition of duties is a "sanction" applied for the purpose of enforcing the observance of the agreement in question. In the second case the minimum standard infringed is the level of labour conditions which are current in the country of import by which the duties are imposed. The result is that the duties levied will vary both as between the different countries by which they are imposed and also between those in which the imported goods originate.

The policy of collective penalisation of goods produced under conditions condemned by international agreement is one with which it is impossible not to sympathise in principle, and admittedly such a policy derives some degree of support from the language of the Treaties of Peace.* Nevertheless, we cannot ignore the serious practical difficulties of administration to which the application of such a

* Articles 409 to 420 of the Treaty of Versailles.

policy is likely to give rise, especially if the method of application selected is that of additional Customs duties. When, a generation ago, this country became party to the international Sugar Convention directed against bounty-fed sugar, the difficulties of applying the penal clause by way of countervailing Customs duties were considered to be so formidable that Great Britain deliberately preferred the alternative of total prohibition. On the information before us we cannot certainly derive much encouragement from the experience of this attempt at international penalisation, but it is reasonable to hold that the establishment of the League of Nations and the International Labour Office have now provided more efficient machinery for collective agreement and action than was available before the war.

On the whole we feel that, in so far as it may be thought necessary to fortify international agreements on labour conditions by the threat of specific " sanctions " for their breach, it is highly desirable that such sanctions should be of such a nature as to act as a powerful deterrent against evasion, while reducing to a minimum the occasions on which they may have actually to be put into force. We have great doubt whether the method of countervailing duties could be made to satisfy this criterion, and whether, therefore, unless in very exceptional cases, this method of penalisation will be found to be the most appropriate to employ. The prime object is not so much to equalise competition, as to put an end to an abuse ; and it is essential that the measures employed shall be adequate, and shall be generally recognised as adequate, to achieve this object without fail. The cutting off of a large part of the world's market by a concerted prohibition of importation might often be successful where the mere imposition of additional customs duties might fail to cause a defaulting country to alter its ways, especially if, as is possible, a considerable part of its markets were situated outside the ring of signatory states. We may add that the penalty of prohibition is already applied by convention with success in a number of cases more or less analogous to those now in question, e.g., to goods infringing the provisions of the Industrial Property and Copyright Conventions, or to literature which comes within the scope of the convention with regard to obscene publications. The penalty of prohibition of import is also applied to goods which contravene certain provisions of British Customs laws, or are made in prisons or penitentiaries. This last mentioned case presents in some ways the closest analogy to the proposed penalisation of goods made under unsatisfactory labour conditions. It will, however, be seen from the account of the Prison-made Goods Act in a previous volume* that the difficulties of obtaining the necessary proofs have practically reduced the measure to a dead letter. Broadly speaking, our conclusion is that, as a

* " Factors in Industrial and Commercial Efficiency," p. 416.

rule, prohibition of import is likely to be a much more suitable and effective weapon than countervailing duties for the purpose of penalising countries which fail to fulfil their international obligations, though we hope that it may rarely be found necessary to employ the threat, and still more rarely to put it in force.

We may now turn to the second, and more widely advocated, policy of using Customs duties to equalise the conditions of labour costs as between the importing and exporting countries. We have given this proposal our most earnest consideration, since in our view the principle involved is the most plausible and superficially attractive of all those which are customarily invoked in explanation and defence of tariff barriers. Incidentally, it may be recalled that the supposed need of protection against the "pauper labour" of Europe was for many years the popular defence of high tariffs in the United States.

The following are among the reasons for which we find ourselves unable to recommend that the British Customs tariff should be employed for this purpose.

(1) The object would not be attained by "countervailing" differences in rates of wages or hours of labour, since, as has been clearly shown in "Further Factors in Industrial and Commercial Efficiency,"* the level of labour cost per unit of production (which is what it is desired to equalise) does not vary proportionately to the remuneration of labour per unit of time. Frequently, indeed, it moves in the opposite direction, being affected by a large number of other factors, e.g., the personal efficiency of all grades of workers, and the degree to which their efforts are made more effective by the assistance of machinery and other forms of fixed capital, or by good management and organisation. What, therefore, would have to be compared in order to determine the appropriate "countervailing" duty is not the current rates of wages, but the labour cost of each unit of production—a factor which more than any other eludes direct measurement, because of the almost complete absence of really comparable data. We have found it impossible to make any international comparison of labour costs for the purpose of our present inquiry, and we do not envy a public department required to obtain the necessary data on which to base a tariff.

(2) If the above difficulty could be overcome, the result would be that each importing country would have to calculate and impose different rates of duty on the same article according to its country of origin. It is doubtful if such a system could be administered without causing an immense hindrance to the flow of international trade. It would in particular require the universal institution of a system of certificates of origin, which are not at present required by this country for goods of foreign origin. It would require also a very

* pp. 11 and 90–98.

great and expensive increase of Customs personnel, and would certainly involve delays in clearing goods through the Customs and great inconvenience to trade.

(3) Let it be supposed that both the above difficulties are surmounted, and that the rates of British import duties on identical goods are graduated and differentiated according to the ascertained level of labour cost in each country of origin. Evidently one immediate result would be to sweep away the safeguard of the "most-favoured-nation" clause of our commercial treaties, the maintenance of which in its most unconditional form has for many years been a prime object of British economic policy. It may be noted that the essential importance of this clause in relation to the movement for the general lowering of tariff barriers has recently been the subject of one of the weightiest pronouncements of the Geneva Economic Conference.

(4) It may be questioned whether the policy of equalising conditions of labour cost by means of Customs duties is a sound one from the point of view either of the interests of British trade or of world economic restoration, even if it were possible to overcome all the difficulties which make its practical realisation impossible. It should never be forgotten that our dominant interest is to sell abroad sufficient goods to enable us to import the supplies of food and raw material essential to the life of our population. The more the purchasing power of our customers is increased, the better for us; but to exclude the importation of goods which we need because the workers who make them, judged by our standards, are poor can only diminish still further their already restricted power of taking British products in exchange. Some of the most important foreign markets for British goods are those which, under such a system as is proposed, we should be bound to penalise, and the result would be, not only a heavy blow to British trade, but a lowering rather than a raising of the standard of life of the more primitive races, who would no longer be able to sell us their products or to take ours in exchange.

(5) It is, moreover, quite unjustifiable to apply western standards to the conditions under which Eastern and African peoples are living, and to which they have for centuries been accustomed, without first making full allowance for differences of habits and ways of life based on climatic, racial and other conditions. There are, however, no data to enable such allowances to be made with any approach to accuracy.

We are, therefore, of opinion that it is neither defensible in theory nor feasible in practice to frame our tariff policy with the object of neutralising international differences of labour costs by means of differential Customs duties.

This conclusion does not imply that, if and so long as any arrangement analogous to the present " Safeguarding " Procedure is continued, the accentuation of competition by serious differences of labour cost may not properly be one element to be taken into account, together with all other relevant factors, by any tribunal that may have to decide whether or not to recommend the imposition of a Customs duty on any class of imported goods. As a matter of fact, it is one of the points expressly referred to in the White Paper of 1925, which has hitherto governed the procedure of " safeguarding " committees. We are disposed to think that the idea of " unfair " competition through differences of labour conditions is over-emphasised in the present instructions, and that in any revised procedure the committee should have unfettered discretion as to the weight to be given to this factor in any particular case.*

(b) *Other Possible Objectives.*

We have now examined several of the most commonly proposed objectives of a Customs tariff for Great Britain, viz., (1) to provide a weapon for tariff negotiations, (2) to afford a means of directly compensating the Dominions for the benefits conferred on British trade by their preferential tariffs, (3) to equalise conditions of labour cost as between Great Britain and the countries in which imports originate. We have been unable, for reasons already stated, to accept any of these objectives as affording a suitable basis for the construction of the United Kingdom Customs tariff, either in lieu of or concurrently with its present main objective, viz., the raising of revenue. While, however, frankly accepting revenue as the main objective of any conceivable British Customs tariff, we have by no means rejected the possibility that the pursuit of this objective may with advantage be qualified by regard for other considerations, including *inter alia* those referred to above. For example, he would be a bold man who would claim that the present rates of duty on alcoholic liquor are solely dictated by revenue needs, without any regard for social results. Again, it would in our judgment be mere pedantry to refuse to make use of a chance opportunity to effect a tariff bargain, or to give weight to considerations of Imperial preference in selecting articles for revenue duties.

It remains to consider two other possible principles which are, or have been, widely advocated as the basis of British tariff policy, and to determine how far either of these principles is admissible as affording either the main objective or a minor qualification of the " typical " British tariff.

These two principles (which are often confounded) are (i) the diversification of British industries with a view to greater self-

* Some of our members who do not favour the continuance of the " Safeguarding " Procedure dissent from this paragraph (see pp. 281–8.)

sufficiency, and (ii) the strengthening of the position of British manufacturers in the home market with a view to affording a firmer basis for the development of export trade.

We need not linger on the former of these objectives.

The economic conditions which for a century have dominated British commercial policy have continually driven us further and further from the ideal of complete "self-sufficiency," and it is hopeless, except by mass emigration, to attempt to make this our goal. Nor, subject to the very important exception noted in the next paragraph, do we consider that the power of taxation can advantageously be used to compel, or encourage, British industry to flow into channels for which it possesses no natural advantages, merely in order to multiply and diversify the industries carried on in Great Britain. We have seen clearly the harmful results of the adoption of crude policies of "nationalism" in industry, both in foreign countries and in some of our own Dominions; and we have no desire to put into the hands of the Government of the day an instrument for deflecting the course of British industry which, even if not misused consciously for political ends, is, according to all experience, most unlikely to yield successful results, while the incidental results of intervention are certain to be harmful and restrictive to trade.

There is, however, one outstanding exception to the above general statement, viz., the case of special industries or processes which for reasons of national safety it is considered essential to carry on within the country. The policy adopted by H.M. Government and endorsed by Parliament with regard to the preservation of what may be termed "Key Industries" was very fully explained in our volume entitled "Factors in Industrial and Commercial Efficiency."* We do not think it necessary to repeat this description, but we are of opinion that the policy adopted is right in principle and ought to be maintained. While we have been sitting, the whole of the "Key Industries" duties have been examined by a special departmental committee, which reported in 1926. That committee recommended the continuance for ten years of the duties, with certain minor modifications, to which effect has since been given by Parliament. We think that it is very desirable that these duties should be reviewed at suitable and regular intervals, in order to be certain that they are sufficient, and not more than sufficient, to effect their object, and to introduce the modifications demanded from time to time by changes of circumstance.

Subject to this essential qualification, we are not in favour of using the Customs tariff to encourage the multiplication and diversification of industries.

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* pp. 402–406.

As agriculture is not within our reference, and we have taken no evidence thereon, we do not propose to examine in detail the various schemes of tariff policy which aim at changing the proportion between industry and agriculture. It is, however, evident that any taxation which had the effect of raising the price of essential articles of food would increase the cost of living and diminish the competitive power of industry in overseas markets.

The principle of strengthening the position of British manufacturers in the home market with a view to increasing their exporting power is that which lies at the root of most of the serious arguments addressed to us in favour of import duties on manufactured articles. The advantage desired might conceivably be attained in more than one way. For example, a Customs tariff on competing imports might so raise the home price as to give the British manufacturer a sufficient margin of profit to enable him to export at the world's price. Such a procedure, viz., selling abroad at less than the price charged to the home consumer, is sometimes termed " dumping," but it is, of course, a widely practised method of conducting export trade wherever the conditions of the home market admit of keeping up the price.

It should be said at once that those who have advocated to us the imposition of import duties for the ultimate purpose of increasing exporting power have not, as a rule, relied on the above method, but have based their advocacy rather on the anticipated effect of an import duty in enabling factories to work to the fullest extent and thus reduce their overhead costs.

The argument as stated to us in its most moderate and guarded form explicitly introduced two other limiting conditions, viz., that the commodity must be one the production of which can be increased indefinitely, and for which this country possesses at least average advantages and possibilities of efficiency. Where these conditions are satisfied, the advocates of the "safeguarding" of the home market are convinced that the lowering of costs by working plant to the full will usually outweigh any rise of price due to the direct operation of the Customs duty, and those of our members who accept this contention would be prepared to make the continuance of any duty contingent on the fulfilment of this forecast. It will be seen that the fund on which reliance is placed to enable the cost of production for export to be lowered is not to be derived from any surplus price realised in the home market, but from the reduction of overhead charges which would result from producing to the full capacity of the works.

How great in some cases may be the increase of cost per unit of product due to the spreading of " overheads " over a greatly reduced

output was strikingly illustrated in the analysis of costs of production published in "Further Factors in Industrial and Commercial Efficiency."*

It is obvious on closer examination that the validity of the argument by which this principle of tariff policy is supported must vary very widely according to the circumstances of particular industries and categories of imports. The effect of import duties on prices has become a stock subject of heated and inconclusive controversy, and, as so often happens, the apparently irreconcilable differences of opinion among well-informed business men and economists on the subject are largely due to the fact that the controversialists on both sides have tried to formulate general laws of universal application on the basis of limited experience under particular local and industrial conditions.

Such an attempt is bound to fail, and to lead to conclusions which are only partially true.

In some cases it is unquestionable that an import duty would raise home prices by its full amount, or conceivably even more. In others the reduction of costs due to the wider spreading of overhead charges might, in the presence of active internal competition, neutralise, or conceivably more than neutralise, any increase of price caused by the duty. For the same reason, the secondary and indirect repercussions on trade due to the imposition of a duty would vary very widely both in character and extent according to the circumstances of the case. There is as yet no definitely ascertained and generally accepted body of doctrine as to the precise conditions under which, and the extent to which, the imposition of an import duty on competing manufactures would be likely on balance to give rise to higher prices, through restricting competition, or to lower prices through decreasing overhead costs. In the circumstances, it is not perhaps surprising that we ourselves are not in complete agreement on so difficult and complicated a question. We are, however, agreed that a principle of tariff policy, the practical results of which depend essentially on particular varying industrial and local conditions, is unsuitable to be the foundation of a "general tariff" in the sense in which we have used the expression†, and that it is only admissible in cases in which the necessary conditions for its beneficial application can be proved to exist.

(3) "Safeguarding" and the "McKenna" Duties.

(a) *The "Safeguarding" Procedure.*

It follows from the proposition just stated that some procedure analogous to that of the special inquiries now held into applications for "safeguarding" duties affords the only method by which the principle

* pp. 71–167. † See footnote, p. 267.

of using tariff duties in suitable cases to strengthen the position of the British manufacturer in the home market can be effectively tested.

It may, however, be inquired whether the necessary data for an immediate conclusion are not provided by the experience already gained in connection with "safeguarding duties." We have accordingly been supplied by the Board of Trade, at our request, with all available data as to the course of production, employment, prices, imports and exports, in the industries affected, during the period covered by each of the "safeguarding" duties now in operation, and also during the period immediately before the imposition of these duties. We have examined these data with great care, but we find it impracticable to draw any general conclusion therefrom. The earliest of the duties were imposed in the middle of 1925, the latest in 1928. In no case is the period covered long enough to admit of safe inferences as to the real effect of the duties, more especially in view of the disturbing effect of the prolonged coal dispute of 1926. In some cases, moreover, there have been other special disturbing factors which make statistical comparisons unsatisfactory. All that can be said is that the very limited operation of the experiment of "safeguarding" up to the present time has not, so far as can be judged, given rise to any substantial prejudice either to the consuming public or to the using trades, while in some cases, e.g., lace and gloves, there is definite evidence of improved employment in the industries concerned. In one case (gas mantles), the manufacturers have succeeded in securing the home market by international agreement, a result which they think they could not have achieved without the support of the duty.

We have endeavoured to ascertain if any more conclusive evidence of the practical results of import duties is afforded by the experience of the so-called "McKenna duties," most of which have been in force for over twelve years, subject to a break in 1924–25. These duties, which differ both in origin and object from those just considered, are examined separately below (see p. 280). Without anticipating that examination we may say that the data furnished to us by the Board of Trade of the recent course of trade, employment, prices, etc., in the industries affected by these duties do not, in our judgment, enable any general and definite statement to be made with any confidence as to the precise results of their incidence.

By far the most important of these duties is that on motor cars, and the figures afford striking evidence of the expansion of production, employment and export, concurrently with a decline of prices, during the past ten years. We have also direct evidence that the principal commercial users of motor cars, the road transport interests, have expressed themselves as favourable to the duties. But in

view of the immense change that has been going on during the same period in the conditions of demand and production, it would be very rash to claim all these results as flowing directly from the normal operation of the duties, though the favourable attitude of the road transport interests towards the duties affords strong evidence that the principal commercial users of motor transport have not so far suffered injury. On the whole, we do not feel that the inconclusive evidence of the results of the first two or three years' experiments in "safeguarding" duties is to any substantial degree strengthened, or made more certain, by a study of the operation of the "McKenna" duties, in view of the very abnormal period through which the country has been passing since their imposition, and of the difficulties of disentangling any single thread of the complicated skein of multiple causes and intermixed effects.

We feel, however, that the very inconclusive nature of the results so far attained, taken in conjunction with the absence of any substantial complaint of prejudice so far caused to other trades or to the consuming public, affords justification for continuing the experiment of "safeguarding" for a long enough period to yield more definite conclusions. We also feel, however, that the operation of this procedure must always be considered to be limited, both as regards the field of industry to be covered and the period of time for which any "safeguarding" duties shall continue in force. It is of the essence of the conditions prescribed in the "white paper" of 1925, by which the present procedure is governed, that the existence of an exceptional situation has to be established in each case, and the strict fulfilment of these conditions is clearly incompatible with any policy of gradually building up a general tariff by means of a succession of "safeguarding" inquiries. Moreover, it is to be remembered that some, though not all, of the exceptional conditions referred to in the white paper (e.g., currency depreciation) are transitory, and may be expected to disappear as the effects of war conditions pass away.

If, for the foregoing reasons, it is deemed expedient to continue the policy of "safeguarding," it is desirable to consider how far the present procedure needs modification in detail in the light of the evidence before us as to past experience.

As stated above, the procedure at present followed is defined, not by statute, but in a "white paper," issued in 1925, of which the text was published in a previous volume.* Some of the rules and instructions contained in this white paper seem to us to require revision. For example, we are disposed to think that the condition that an applicant industry must be of "substantial importance" may, if rigidly interpreted, operate so as to disallow applications

* "Safeguarding of Industries—Procedure and Enquiries." Cmd. 2327. Or see "Factors in Industrial and Commercial Efficiency," p. 447.

which may be quite as well supported, and (at least to the persons engaged in the industries) as important, as other applications which succeed. We sympathise with the motive of the present limitation, which is presumably to restrict the expense and labour entailed by these inquiries both to the department and to the trades. We should, however, prefer that this object should if possible be attained by means less open to criticism than the denial of a hearing to persons employed in small industries. We would not, of course, refuse to the Board of Trade, or to a committee of inquiry, a certain discretion to reject applications of really trifling importance, on the principle " de minimis," but we are disposed to think that the present rule is unnecessarily restrictive.

We are also inclined to think that the application of the test of " abnormality " to the quantities of goods imported must become more and more difficult and artificial as time goes on. This condition might have been reasonable in the years just following the war, but each year that passes makes direct comparison with the pre-war period (which is the most obvious test of " abnormality ") a less and less satisfactory criterion. Possibly some such phrase as " substantial and increasing " might with advantage be substituted for " abnormal."

Under the existing Procedure the Board of Trade have power to refuse an inquiry if they are of opinion that the applicant industry is not carried on in this country with reasonable efficiency and economy ; and this matter must also be reported on by the Committee to which an application is referred. In view of the importance of systematic research as a factor in industrial efficiency, and the unsatisfactory attitude of some industries towards such research, we are disposed to think that the Board of Trade or the Committee should invariably have regard to the adequacy of the provision made by an industry for this purpose in considering the question of reasonable efficiency.

Further, we are not satisfied that the interests of third parties are adequately protected by paragraph (7) of the Instructions to Committees, which requires a committee to report whether a proposed duty on goods of a certain class or description would " exert a seriously adverse effect on employment in any other industry, being an industry using goods of that class or description in production." This instruction is excellent so far as it goes, but we are disposed to think that either it should be widened so as to take account of the possibility of serious prejudice being caused by an increase of prices to consumers other than those who use the goods in production, or, if it be deemed inexpedient to make so formidable an addition to the Committee's duties, this all-important point should invariably be taken into account by the Department to which the Committee reports.

We have already indicated (*see* p. 272) that we consider that the present instructions over-emphasise the condition of "unfair competition" arising from differences of labour conditions, and that it would be desirable to leave the Committee greater freedom as to the weight to be given to this factor in any particular case.

In addition to any modifications in the instructions, the question arises of ensuring greater uniformity of judgment and continuity of procedure on the part of the committees. The system of *ad hoc* committees with a changing personnel has doubtless some advantages, but it is certainly wasteful of time, and there may be insufficient correlation among the successive decisions. We consider that if there were a standing committee, suitably composed of not more than three independent members, and if it became the practice, subject, of course, to necessary exceptions, to refer applications so far as possible to this committee, the result would be a material saving of time and expense, and a greater uniformity of procedure and decision which should tend to maintain and increase the public confidence. We would not go so far as to recommend that all applications should invariably be dealt with by a single committee, as this might cause undesirable delay and cases might arise which might for various reasons be best considered by a differently constituted committee. If, however, at least all the smaller cases were handled by one committee, it might be reasonably hoped that the saving of expense thus effected would more than counter-balance any increase that might be caused by interpreting less narrowly the condition of "substantial importance."

Our attention has been drawn to the fact that the difficulty of drawing any conclusions as to the effect of the existing "safeguarding" duties has been considerably intensified by the lack of detailed statistics regarding prices, production, employment, and costs. While we have no desire that industries which are struggling against special difficulties should be harassed by excessive demands for statistical information, we think it only reasonable that those engaged in industries which have received exceptional protection should be willing to furnish such essential statistics as would enable their position to be followed and valid conclusions drawn. We consider, therefore, that the conditions attached to the granting of "safeguarding" duties in future should include a requirement for the periodical delivery to the Board of Trade of such statistics as we have indicated. We also consider that a similar requirement should be imposed by law on employers engaged in industries to which "safeguarding" duties already apply, and that it should cover the whole period which has elapsed since such duties came into force.

These provisions, if enforced, would enable the position of "safeguarded" industries to be kept continuously and effectively under observation by the Board of Trade. If at any time it should

appear, as the result of this observation, that the conditions mentioned on page 274 as a test of the beneficial operation of an import duty of this kind were not being fulfilled, we think that the Board of Trade should submit the case forthwith to a Committee for re-examination, with a special instruction to report on the effect of the duty on costs and prices.

Independently of any such action by the Board of Trade, we think that every "safeguarding" duty should automatically be submitted to a Committee for review about a year before the date fixed for its expiration, in order to obtain the necessary material for a decision by the Government as to the desirability or otherwise of proposing an extension of the duty.

(b) *The "McKenna" Duties.*

We have now to consider the somewhat different question of the future of the "McKenna" duties, which were originally imposed during the war for the double purpose of maintaining the foreign exchanges and reducing the consumption of luxuries.* When, after the abolition of these duties in 1924, they were restored in 1925, the Chancellor of the Exchequer re-affirmed these reasons and declared them still to be operative, adding as another ground of justification the substantial revenue produced by the duties.†

Since that time many different grounds of justification of the duties have been urged, but it appears to us that the really valid justification is that the duties are in existence without giving rise to any substantial dissatisfaction, and that consequently, in the interests both of trade stability and of revenue, they should not be disturbed without adequate reason in each case. It is necessary to remember that none of these duties has been subjected to the scrutiny of an independent committee such as examines applications for "safeguarding" duties. In view of the great importance which we attach to stability, we do not suggest that any such formal examination of the existing duties should take place, since any such inquiry would be bound to exercise a disturbing effect on trade. But we feel that the retention within the British Customs system of a group of duties which owed their origin to war conditions that have now passed away, and which have never been the subject of impartial public inquiry, can only be justified on condition that the Treasury and Board of Trade exercise continual vigilance over their working and results.

For this purpose we consider that the requirements above proposed, with regard to the rendering of statistical returns to the Board of Trade by persons engaged in industries subject to a "safeguarding" duty, ought undoubtedly to extend to the industries

* "Factors in Industrial and Commercial Efficiency," p. 399.
† Ibid, p. 400.

protected by the "McKenna" duties; and the continuance or discontinuance of these duties should be subject to the same conditions as have been laid down above with regard to "safeguarding" duties.

Some of our members, while concurring in the sections of this Report which deal with the governing conditions and objectives of British tariff policy, do not accept the conclusions of the present section with regard to "safeguarding" and the "McKenna" duties. We have, therefore, thought it desirable to set out in the following paragraphs the views which those members take on this subject, followed by a short statement explaining why the Committee as a whole feel unable to share those views.

(c) *Alternative View as to "Safeguarding" and the "McKenna" Duties.*

In the opinion of the members of the Committee responsible for the following paragraphs, the "safeguarding" duties are entirely opposed to what should be the governing conditions and objective of British tariff policy; and the procedure hitherto followed with regard to the imposition of such duties should not be employed to determine the extent to which Customs duties can be used to secure what must be the primary object of that policy, i.e., the maintenance of an essential overseas supply of food and materials.

Further, nothing that has been or can be effected under such procedure can furnish guidance as to the employment of Customs duties for the purpose of strengthening the exporting powers of our industries.

Under the "Safeguarding" Procedure the Board of Trade, with the aid of a committee specially appointed by it for the purpose of advising on each separate application, is charged with the duty of ascertaining if the applicant industry is in fact being subjected to exceptional or abnormal unfair competition from goods imported and sold below prices at which similar goods can be profitably manufactured or produced in the United Kingdom, and, if such facts be established, of advising whether the applicant industry should be protected, and if so as to the Customs duties that will be "reasonably sufficient to countervail the unfair competition."

For the purposes of these investigations "unfair" competition must arise from depreciation of currency operating so as to create an export bounty; subsidies, bounties or other artificial advantages; or inferior conditions of employment of labour. And to be entitled to protection the applicant industry must be of substantial importance and carried on with reasonable efficiency and economy.

Further, the suggested Customs duty must not be such as would exert a seriously adverse effect on employment in any other industry using goods of the class or description in question.

It is then for Parliament, not the Board of Trade, to take such action as it sees fit upon such findings as result from each of these investigations.

It will be seen that the basis of action under this procedure is the unfairness of foreign competition. The present Report has dealt elsewhere with the practical impossibility of fixing rates of Customs duties so as to neutralise or countervail unfair conditions of competition arising from lower wages, long hours of labour, or generally from inferior conditions of employment in the country from which the imported goods are derived.* And after devoting upwards of four years to the consideration of the conditions and prospects of British industry and commerce with special reference to the export trade, the Committee have found it impossible to make any international comparison of labour costs.†

The existing Procedure is not directed to the ascertainment of the possibility of safeguarding the home market by means of import duties with the view of increasing our exporting power by founding it on a broader and securer basis of home demand. Such duties as have been imposed have been fixed merely as reasonably sufficient to countervail exceptionally " unfair " competition from which the selected industry has been suffering in the home market, and without any reference to the exporting power of these particular industries. It is true that in fixing such duties regard has been had to their effect on other industries using the same classes of goods, but no regard has been paid by the Committees to the effect of the duties upon our general competitive manufacturing and trading power as a nation in the markets of the world.

Excluding buttons, wrought enamelled hollow-ware and certain classes of pottery in respect of which duties were only imposed in 1927 or 1928, and in respect of which no sufficient experience has been gained, the industries so far selected are lace and embroidery, leather gloves and cotton fabric gloves, gas mantles, cutlery, and packing and wrapping paper. These five industries together find employment for a very small fraction, probably less than one half of one per cent., of the workers employed in all our industries, they produce less than one half of one per cent. of the total selling value of the output of such industries, and the value of their exports is in the neighbourhood of £4,000,000 out of the total of about £600,000,000 of British exports of manufactured goods.

* See pp. 268–271. † See p. 270.

The Census of Production and other information placed before us shows that :—

*Lace Industry**.—The numbers employed (excluding outworkers) fell from 36,800 in 1907, to 18,100 in 1924. The value of the goods made in 1924 was estimated at about £6,200,000, of which net curtains, lace, etc., made of cotton accounted for about nine tenths. About 72 per cent. of the last mentioned goods were exported in 1907, as against 45 per cent. in 1924. Since 1924 there has been a substantial decrease in the volume and value of such exports, but the decline in value is partly due to the fall in the price of cotton. The value of the net imports of cotton lace, etc., increased from £206,000 (excluding parcel post) in 1924 to £258,000 (including parcel post) in 1927.

*Gloves.**—Employment in the industry increased from 4,800 in 1907 to 5,500 in 1924. The value of the goods made in 1924 by firms making returns on the schedules for the glove-making trade was estimated at £2,259,000, and the value of exports of gloves of dutiable kinds was about £210,000. In the last report furnished to us it is stated that "The export trade in leather gloves is fairly steady. After the war a substantial export trade in fabric gloves was obtained by British makers, the principal market being Australia ; but when the prohibition on the importation into Australia of certain German goods was removed, this trade rapidly diminished, and is now quite small."

Gas Mantles.—The industry finds employment for about 1,800 work people. The export trade has never been of much importance, and since 1925, the imports have practically ceased, as under an agreement between the British manufacturers and the German Mantle Convention and some associated manufacturers in other countries, the home market is reserved for British mantles.

Cutlery.†—Employment in the industry fell from 14,800 in 1907 to 11,400 in 1924. The selling value of the output of steel cutlery in 1907 was £1,500,000, and in 1924 between £2,600,000 and £2,700,000. The value of exports of cutlery increased, with some fluctuations, from £639,000 in 1900, to £836,000 in 1913, and to upwards of £1,000,000 in and since 1924, but in competition with the chief exporting countries British exports, which in 1913 amounted to 27 per cent. of the aggregate total of these countries, fell in 1924 to 17 per cent., and in 1926 and 1927 to 16 per cent. In 1924 the value of the imports retained was £368,000, but that figure, in view of the

* "Further Factors in Industrial and Commercial Efficiency," p. 62.
† Ibid., p. 60, and "Survey of Metal Industries," pp. 261–272.

holding of the "Safeguarding" Enquiry, increased in 1925 to £1,151,000. In 1926 the value of the retained imports was £268,000, and in 1927 £362,000.

*Packing and Wrapping Paper.**—The output represented in value in 1907 about 15 per cent. and in 1924 about 9 per cent. of the total output of the Paper Industry. In 1924 the output of packing and wrapping paper was 3,168,000 cwts. in quantity and £3,307,000 in value, and the exports were 687,000 cwts. in quantity and £579,000 in value. For the same year the net imports amounted to 4,131,000 cwts. in quantity and £4,822,000 in value. Since 1924, when the export figures included a considerable weight of old newspapers, the exports have fallen to the neighbourhood of 200,000 cwts. a year. The imports have also fallen from 4·1 million cwts. in 1924 to 3·3 million cwts. in 1927.

Such experience as has been already gained, or is likely to be gained, of the effect of "safeguarding" duties imposed for the benefit of such industries as the above can have no bearing on the safeguarding of the home market by means of import duties with a view of increasing our exporting power by founding it on a broader and securer basis of home demand. The object aimed at has been the reservation of the home market for selected British manufacturers who have established their inability to compete at world's prices, and it is too early to draw any safe inferences as to the real effect that such protection will have on even such industries themselves. As regards our industries generally, and in particular those working for our exporting trades, the immediate result has been to establish, so far in very limited numbers, new "sheltered" industries working and trading under the special protection of the State, but living on the overseas supplies of food and materials that have to be paid for by the "exposed" industries working on a competitive basis in the markets of the world.

It further appears to us that the method of procedure laid down—an investigation by a committee into the conditions of a particular industry—can never provide adequate material to enable Parliament to form a judgment as to the advisability of adopting such a method with a view of increasing our exporting power as a country. Such judgment must be based on an adequate appreciation of the general conditions that are essential to the maintenance and increase of our exporting power, and of the reactions of what may be done for particular industries on such conditions.

The operation of the "McKenna" duties throws perhaps more light on the problem under immediate consideration than the "safeguarding" duties. It is true that the former were not imposed

* Census of Production, Preliminary Report No. 8.

for protective purposes but to cut down expenditure on imported luxuries and to help in the maintenance of our foreign exchanges during the war. But it is also true that for the last ten years the "McKenna" duties have been protective in a high degree.

By far the most noteworthy industry receiving this protection is the motor industry. A Customs Duty of 33⅓ per cent. *ad valorem* ranks among the high duties levied on motor cars in the principal overseas markets, and, therefore, since the war the British motor industry has received what in protectionist countries, including the United States of America, is regarded as effective protection against foreign competition in its home market. It has, therefore, for the last ten years been able to base its production on the broad and secure basis of home demand.

The results so far attained under this policy may be summarised as under :—

(*a*) The numbers employed in the motor and cycle industries combined increased from 53,000 in 1907, to about 92,000 in 1912, and to 200,000 in 1924. The output of complete motor cars, motor commercial vehicles and chassis increased in numbers from 10,300 in 1907 to 23,200 in 1912, and to 146,600 in 1924—the values in such years being £3,585,000, £7,436,000 and £40,059,000.*

(*b*) The imports retained of the same articles† averaged in the years 1911 to 1913 in number 12,700 and in value £3,104,000. In 1924 the number was 23,800, and the value £4,099,000. As a percentage on the British output, the imports had, therefore, fallen in the 12 years in numbers from 55 to 16 per cent., and in values from 43 to 10 per cent.

(*c*) Since 1924 there has been, year by year, a substantial increase in the output, whilst the average retained imports are not now above the 1924 level.

(*d*) It is estimated that the British factories, at the present time, secure upwards of 80 per cent. of the home sales.

(*e*) Comparative figures are available‡ showing, for the years 1913, 1924, 1925, 1926 and 1927, the values of the exports of motor cars, commercial vehicles and chassis from five of the principal countries engaged in the industry, namely, United Kingdom, United States, Canada, Italy and

* "Further Factors in Industrial and Commercial Efficiency," p. 60; Census of Production, Preliminary Report No. 5; and "Survey of Metal Industries," p. 216.

† "Survey of Metal Industries," pp. 231–2 (The import figures do not include tractors).

‡ "Survey of Metal Industries," p. 242.

Germany. The total of such values, and the share of the United Kingdom therein were as follows :—

Year.	Total value of the Exports of the five Countries.	United Kingdom.	
		Value.	Percentage on Total.
	£	£	Per cent.
1913	14,475	2,862	20
1924	45,606	4,869	10
1925	67,104	7,412	11
1926	66,611	7,158	11
1927	79,211	8,450	11

It will be seen from the above figures that, whilst the value of the total exports of the five countries increased between 1913 and 1927 by no less than £65,000,000, those of the United Kingdom increased by only £5,600,000, or, in other words, that the United Kingdom succeeded in securing only 9 per cent. of the increased international trade of the world. Further, whilst the British factories exported in the neighbourhood of 33 per cent. of their total output in 1912, that percentage had fallen to 12 in 1924.

The British manufacturers contend that our system of taxation has been prejudicial to economic design, and has seriously handicapped our export trade, but the fact remains that the United Kingdom does not figure well in any of the overseas markets other than Empire markets, and that the American and Canadian cars dominate the imports into the four great Empire markets, although the British share in such last mentioned markets has shown a distinct upwards tendency in recent years.*

Comparative figures, for the same years, of the values of the exports of machinery, other than motor cars, electrical machinery and marine engines, but including locomotives, by the seven principal countries engaged in such production, show that whilst the value of the total exports of such products from the seven countries increased between 1913 and 1927 by £79,000,000, that of the exports of the United Kingdom increased by £11,000,000, or, in other words, the United Kingdom secured 14 per cent. of the increased international trade in the classes of machinery in question.

* " Survey of Metal Industries," pp. 221, 248 and 250.

In the electrical manufacturing industry the comparative figures are more striking.* For the same years, whilst the values of the exports of electrical machinery and apparatus by the six principal countries engaged in their production increased between 1913 and 1927 by £35,400,000, that of the exports of the United Kingdom increased by £11,000,000, or in other words, the United Kingdom secured 31 per cent. of the increased international trade.

So far the high degree of protection afforded to the motor industry has created yet another " sheltered " industry, living on the oversea supplies of food and materials that have been paid for by other industries working on a competitive basis in the markets of the world. It has not by strengthening its position in the home market increased its exporting power. The British manufacturers of machinery other than motor cars, and of electrical machinery and apparatus have had no secured basis of home demand, but in the difficult post war years they have done far better than the British motor industry in the competitive markets of the world.

The motor industry must in the long run depend on its ability to compete at world's price, and if it be the fact that our system of taxation is prejudicial to economic design and is thereby handicapping our manufacturers in both their home and overseas markets, that system of taxation must be revised. Its disadvantages cannot be offset by securing for the British factories the home market with its limited capacity.

The experience gained of the effect of both " safeguarding " and " McKenna " duties affords no warrant for the belief that by such departures from the policy of a stable tariff for revenue only shall we be able to increase our exporting power, and thereby ensure sufficient and continuous employment and a satisfactory standard of living in this country. On the contrary, such experiments have reacted disastrously in diverting attention from the vital need of bringing down, in our industries generally, the cost per unit of production so as to enable us to compete again in the world market, including our own home market, in price as well as quality. Dependent as we are for our existence on overseas supplies we cannot afford to devote our energies and resources to the maintenance, and still less to the creation, of " sheltered " industries.

There is no doubt that protection in the home market has enabled particular industries in some countries to increase their exporting power, but the method followed has been generally the maintenance of the home price at a level which will give the manufacturer a sufficient margin of profit to enable him to export at world's prices. The position secured by means of such protection has not infrequently been used as a basis for regulating by combination among the manufacturers both supply and prices. On the other hand, in some

* " Survey of Metal Industries," pp. 336–7.

of such countries, and the United States of America is an example, the level of prices maintained under protection in the home market has acted as a serious handicap in their export trades, and reacted to the prejudice of their standard of living. It is in respect of countries following such methods that the complaints of " unfair " competition are made.

Notwithstanding the enormous burden cast on us by the war, we are still the greatest exporters in the world of manufactured articles. To ensure sufficient and continous employment and a satisfactory standard of living in this country, we must keep the flow of trade, both inwards and outwards, through our ports as free from Customs barriers and Customs formalities as is possible, and those of us on the Committee who hold these views are, therefore, of the opinion that, in the national interest, both the " safeguarding " duties and the " McKenna " duties should be repealed.

(d) *Comments on the alternative view.*

The Committee have willingly inserted in the Report the above statement of the conclusions of certain members with regard to the policy and practice of " safeguarding " and the retention or repeal of the so-called " McKenna " duties. They feel, however, that it is due to the other members that they should also state briefly the reasons why as a Committee they are unable to adopt these conclusions.

In doing so they would recall that the whole Committee are at one with regard to the fundamental conditions and objectives of tariff policy, and that the only point of difference is whether the views expressed with regard to " safeguarding " and the " McKenna " duties are in harmony with the principles already enunciated. The members who answer this question in the negative appear to us to found their view too narrowly and exclusively on the present rules of procedure laid down in the White Paper of 1925. They contend in effect that these rules are not directed to the same objective as that which the Committee are pursuing, which, put very briefly, is the strengthening of exporting power without raising home prices, by reducing costs through enlarging the volume of production. We consider that this criticism would not be without weight if applied to the procedure hitherto in force. We have, however, already made several suggestions for the amendment of this procedure which we think our colleagues have not fully appreciated.

For example, we have urged that the effects of a duty on the prices charged to the consumer should be taken into account either by the Board of Trade or by the Committee before a duty is approved, and we have made recommendations for the establishment of machinery for continually watching the actual results on production, export prices and costs of each duty which has been imposed, and also for action by the Board of Trade in the event of

those results not conforming to the conditions which we have laid down. At the same time we have suggested that the idea of " unfair competition " should be less strongly emphasised in the procedure.

It seems to us that the adoption of these recommendations would adequately meet the points raised by our colleagues, unless it be intended to suggest that the effect which will be exercised on export and on prices by a proposed duty should be strictly proved in each case in advance, a condition which seems to us unreasonable to require and impracticable to enforce. All that can reasonably be done is to secure that this factor shall not be neglected in considering the expediency of a duty, and that the continuance of any duty shall be made to depend on its results proving satisfactory in these respects.

As regards the statistics quoted by our colleagues, we see nothing to cause us to modify the opinion which we have already stated that the figures available are inconclusive as to the effects of the duties.

We are quite unable to share the objection of our colleagues to any form of Committee procedure. The case would be very different if the Committee were clothed with executive powers instead of being purely advisory. As regards the precise form of procedure we have made some suggestions for amendment, but we are fully convinced that, though investigation by a Committee can never take the place of consideration by the Government and by Parliament, the method of open preliminary inquiry by an independent Committee, at which all parties interested are heard, is well calculated to assist that consideration and to define and narrow the issues. We consider that, even under the present procedure, valuable experience has been gained ; and we do not think that the results can be fairly appreciated merely by analysing the few cases in which duties have been imposed and neglecting altogether the much larger number of applications which were either refused by the Board of Trade or rejected by Committees.

Turning to the " McKenna " duties we deem it necessary to recall that we have already recommended the establishment of machinery for effectively watching the results of these duties, and discontinuing them in the event of these results being shewn to be unfavourable. For reasons stated we regard the present evidence as to the effect of the motor car duty as inconclusive, and we are not impressed by the argument of our colleagues based on comparison with the experience of certain other branches of the engineering industry, in view of the wide difference between the conditions of international competition as affecting the branches of industry compared. We, therefore, consider that the principle of stability requires that this duty shall not be disturbed until the information to be obtained through the machinery which we have proposed shall have enabled the results of the duty with regard to prices, production and export to be more satisfactorily ascertained.

(4) Import Prohibitions and Restrictions.

Import prohibitions.

Import duties are not the only means, or the most potent means by which imports may be restricted. Another method is that of Customs prohibition, sometimes qualified by a system of licensing. This method came into great prominence during the war, when it was necessary to cut down the volume of imports, and at the same time to give priority, by means of rationing and otherwise, to imports of essential foodstuffs and materials of military use. Since the war, and especially during the period of extreme instability which immediately followed it, the method of prohibition and license for a time almost superseded that of Customs tariffs in some European countries as a means of regulating external commercial relations. In Great Britain the war controls and the prohibitions on which they were based were rapidly abolished in practically all cases but that of dyestuffs (which is separately discussed below), and in so far as any measures were considered necessary to ensure the maintenance of essential industries, they took the form of the so-called "key industry" duties which have already been described.

On the Continent, however, the régime of prohibitions lingered much longer, and it was the object of strong denunciation by the recent Geneva Economic Conference. "The experience of the years since the war proves that import and export prohibitions, and the arbitrary practices and disguised discriminations which result therefrom, together with the obstacles of all kinds placed on the circulation of goods and capital, have had deplorable results by hampering the normal play of competition, by imperilling both the essential supplies of some nations and the not less indispensable markets of others, and by bringing about an artificial organisation of production, distribution and consumption."* We cordially agree with the view expressed in this paragraph, and we consider that in ordinary circumstances the restriction of imports by customs prohibitions is far more prejudicial to trade than a customs tariff. The obstacle to trade offered by a Customs duty is known, and, provided there is no discrimination, is equally applicable to all foreign competitors, whereas a licensing system, unless very carefully and fairly worked, opens the door to all kinds of arbitrary interference and preference, and leaves the trader in a state of uncertainty which makes the carrying on of his business extremely difficult.

The Report of the Geneva Conference went on to commend warmly the project then being prepared by the Economic Committee of the League of Nations for the renunciation by general agreement of Customs prohibitions as a means of regulating trade relations. Since that date this project has been brought to fruition by the signature

* Report of Conference, p. 22.

in the autumn of 1927 of an International Convention for the suppression of Customs prohibitions and restrictions. We are glad to know that Great Britain took an important part in the preparatory work which preceded the conclusion of the Convention, and was one of the original 18 States by which it was signed. We earnestly hope that the ratifications necessary to bring the Convention into force will be speedily obtained.

The prohibitions and restrictions at which the new Convention is aimed are those which serve as an instrument of economic policy, and they do not include Customs restrictions imposed for the purpose of enforcing rules relating to public security or health, or based on humanitarian considerations, or aimed at the suppression of unfair trade practices. Nor do they include measures for " protecting in extraordinary and abnormal circumstances the vital interests of the country." Lastly the Convention includes a provision permitting certain specific reservations on the part of the participating States, under which we note that the British Government has only found it necessary to reserve the right to prohibit the importation of synthetic dyes and intermediate products. In spite of the necessity of reservations of this nature at the outset, and also of the danger that prohibitions nominally imposed on the ground of disease or of some other reason permitted by the Convention may in reality be used as a weapon of commercial policy, we regard the establishment of this Convention as an important step in the direction of freeing international trade from artificial obstructions.

In view of the specific reservation made by Great Britain in respect of dyestuffs, and of the evidence we have received as to the effects of the present system of dyestuff regulation, it is necessary to deal with this particular matter somewhat more fully.

Importation of dyestuffs.

The case of synthetic dyestuffs offers perhaps the most conspicuous example of the problem of ensuring the maintenance within Great Britain of certain essential or " key " industries. The use of the Customs tariff to safeguard such industries has already been discussed under the head of tariff policy*. For special reasons however it was considered, we believe rightly, that no import duty would suffice at the outset to enable the dyestuffs industry to establish itself firmly in Great Britain, in the face of the overwhelming superiority of the foreign organisations with which it would have to compete, and that nothing short of prohibition accompanied by a licensing system would meet the case. The reasons which led the British Government to the conclusion that it was necessary in the public interest that a large-scale dyestuffs industry should be established and maintained in Great Britain, were partly reasons of national defence, in view of the close technical connection between the manufacture of dyes and explosives, and partly the fact, which

* Page 273.

was strikingly brought home by the war, that great branches of our textile and other colour-using industries which furnish a large proportion of our exports are liable to be paralysed, or at least to be rendered unable to compete in overseas markets, by any dearth of dyestuffs or of the essential materials of which they are made.

It was consequently decided to make importation of foreign dyestuffs subject to license, the issue of which would be in the hands of an independent licensing Committee whose duty it would be, while fostering the growth of the colour-producing industry, to safeguard the interests of colour users by allowing the importation of foreign dyestuffs where they were of kinds not made in this country but really needed by the using industries, or where the prices of British-produced dyes were unduly high. The necessary legislation was embodied in the Dyestuffs (Import Regulation) Act, 1920.

Under this regime the production of British dyestuffs has very largely increased, the range of dyestuffs produced has been greatly extended, and we are informed that the quality and regularity of the dyes have been improved to such an extent as to compare favourably with the best foreign standards. The main difficulty of the British industry has been to produce at competitive prices, but the evidence shows that the margin between British and foreign prices has been narrowed and is not now large. During 1927 very few applications for licences to import were made on the ground that British prices were excessive, and only in one or two cases did the licensing Committee find it necessary to grant licences on such grounds. The practice of the licensing Committee in connection with applications made solely on price considerations is to give the British manufacturer an opportunity of supplying the product required at either the foreign price, or at some prescribed multiple of the pre-war price, whichever is the higher. This method was instituted in September, 1922, when the multiplying factor was fixed at 3. A reduction to 2½ was made in March, 1925, and a further reduction to 2 in September, 1927, but it is stated that the bulk of the British production of dyes is being sold at prices well below twice the pre-war prices, the weighted average for the whole of the output of the British Dyestuffs Corporation being only about 40 per cent. above the pre-war average prices for the same classes of dyes.

Some complaints were made to us by users of dyestuffs regarding the operation of the licensing scheme. These related principally to the price which they had to pay for British dyes, but also included criticism of the quality of the dyes supplied. It is undeniable that purchasers of British dyes have had to pay in many cases somewhat higher prices than they would have had to pay for similar foreign dyes, had they been permitted to import them. But, as already stated, the margin has been growing narrower, and so far as we are able to judge the operation of the licensing scheme is not now

unduly burdensome upon consumers, taking into account all the circumstances of the case. As regards the complaint that British dyestuffs are inferior to foreign dyestuffs it was pointed out to us that the licensing Committee do not refuse permission to import, unless there is a supply of British dyes available, the quality of which is in every way equivalent to that of the corresponding foreign product, and that the onus of proof regarding this is placed upon the British maker.

While we consider that in the circumstances the temporary regulation of imports of dyestuffs was unavoidable, we trust that the Dyestuffs (Import Regulation) Act, which is due to lapse in 1931, will not be continued or renewed beyond the minimum period necessary to achieve its purpose, having regard to the strong objections of principle to the method of prohibition and licensing as a permanent element in commercial policy. Possibly the change in the situation in the British dyestuffs industry which has taken place through the termination of the Government shareholding in the British Dyestuffs Corporation and the absorption of the Corporation into Imperial Chemical Industries, Limited, may facilitate and expedite the discontinuance of the licensing system.

Merchandise Marks.

Measures taken to prohibit the importation or sale in the United Kingdom of goods bearing misleading marks, or of certain classes of goods not bearing any mark of origin, do not perhaps fall strictly under the heading of import prohibitions and restrictions, since the Merchandise Marks Acts do not operate solely by means of Customs prohibitions, nor are they confined to imported goods. Their fundamental object is to prevent purchasers being misled either as to the description or as to the origin of the goods which they buy, and they cover misleading descriptions in such matters as material, quantity, measure or weight, as well as indications of origin.* There is, however, practically no controversy as to any of the provisions of the Acts except those which relate to origin, and we may confine our attention here to those provisions. As, moreover, the intention and effect of the Acts is to prohibit the sale of imported goods which contravene their provisions, they have certain analogies with import restrictions, although as a matter of administrative convenience, and for other reasons, the prohibition is in many cases applied at the time of sale or exposure for sale, and not at the time of importation or through the machinery of the Customs.

In so far as these prohibitions are *bona fide* confined to the object of the Acts as defined above, viz., to ensure that purchasers shall not be misled as to the origin of the goods they buy, they fall clearly within the exceptions contemplated by the recent International

* For a brief account of the Acts, reference may be made to pages 423–4 of " Factors in Industrial and Commercial Efficiency."

Convention on Import and Export Prohibitions. In our judgment, however, it would not be legitimate, and it would certainly not be in accordance with the spirit of that Convention, to use the machinery of the Merchandise Marks Acts as a method of veiled protection for home industries. No doubt it may and often will happen that a purchaser who is enabled to distinguish between imported goods and goods of home production will in fact prefer the latter, and to the extent to which this occurs the effect will be an increased demand for goods of British production. This, however, is in our judgment a perfectly legitimate and desirable result, and has nothing in common with attempts to exclude imports by imposing vexatious conditions on their importation or sale.

Prior to 1926 the question of the marking of imported goods was regulated by the Merchandise Marks Act of 1887, which still remains in force. It prohibits the importation of goods bearing a false trade description, and also the importation of goods of foreign manufacture bearing any name or trade mark being or purporting to be the name or trade mark of any manufacturer, dealer or trader in the United Kingdom unless such mark is accompanied by a definite indication of the country in which the goods were made or produced.

Soon after the end of the war a Committee was appointed to investigate the question of Merchandise Marks, and it made a report in 1920 recommending further legislation. After much controversy the Merchandise Marks Act, 1926, was passed, involving far-reaching alterations in the law. In the first place the Act of 1926 strengthened and made more effective the above-mentioned provisions of the principal Act as to goods bearing misleading names or trade-marks, by extending the prohibition to sale or exposure for sale. In the second place it set up machinery by which the interests concerned could, on making out a case before a Standing Committee, obtain an Order requiring goods of a specified category to bear an indication of origin when sold or exposed for sale in the United Kingdom, or, in certain circumstances, when imported into the country. Inquiries by the Committee are held in public, and all interests are heard. The Act contains special provisions intended to safeguard the re-export trade, and also dealing with advertisements. Orders in Council have to be laid before Parliament before taking effect.

Although the Act of 1926 is now in force, and a number of marking orders have been made, some of which have come into operation, it is too early to form any definite judgment as to the practical results of the measure. It is usually assumed that, other things being equal, purchasers will prefer British or Empire goods to foreign goods, and we think that this assumption is true as regards many categories of products. It does not follow, of course, that British products will be preferred where the foreign goods are cheaper

and adequate in quality; and in the case of some articles an indication of the country of origin may constitute a definite advertisement. No doubt, however, this is less likely to be true of goods which are the subject of inquiries by the Standing Committee than of other goods, since the British interests, before making application for a marking order, must presumably have formed the opinion that such an order would be to the advantage of their trade. In any case, provided that the purchaser is enabled to exercise a free choice, with full knowledge of the facts, we do not see that it is a valid criticism of the Act that it may in certain circumstances result in preference being given to the imported article.

One aspect of the legislation of 1926 to which we would draw attention is the question of possible reactions in other countries. Should such countries enact corresponding though not identical measures, British exporters might be inconvenienced by being required to mark their goods in different ways for different markets. In this case it would be urgently necessary to co-ordinate merchandise marks enactments by common agreement.

Subject to the above consideration we consider that the principle of enabling purchasers to distinguish between home and imported goods is undeniably sound, provided that the law is administered with this sole object in view, and not with the aim of excluding or restricting imports through subjecting them to impracticable or costly requirements. We have been supplied with full information as to the procedure followed by the Board of Trade and the Standing Committee which deals with industrial products. We have confidence, from the information put before us, that at present the Act is being administered in the spirit which we desire, and that, whatever may have been the motives of some of its advocates, it has not in fact been used as a means of disguised protection. As, however, the Act has undoubtedly given rise to apprehensions in some foreign countries, we consider that its effects should be carefully watched, and that, in case of need, the policy of compulsory marking should be further considered when sufficient experience of the working of the Act has been obtained.

IX. CONCLUSION.

It is usual to end a Report of this nature with a list or summary of conclusions, and in many cases this practice has much to recommend it. Besides its undoubted convenience to the reviewer, it saves the busy reader the trouble of perusing the Report itself, and it shows the various public authorities, or other bodies concerned, the nature and extent of any new responsibilities which it is proposed to cast upon them without the necessity of paying attention to those parts of the report which may not so directly affect their activities.

These benefits are, however, always purchased at the cost of certain disadvantages, which may sometimes altogether outweigh them. Epitomes of conclusions always lose much of their value by being separated from the background of the general survey and discussion out of which the finding emerged, and from the qualifications with which they were there surrounded. Sometimes the result of such severance may be to give a distorted impression of the general trend and outcome of the inquiry.

We are strongly convinced that in the case of the present Report, much of the value of which must consist in the examination of industrial and commercial conditions and problems, any attempt to epitomise the results in a formal list of conclusions would not only be difficult, but would to a large extent defeat the object of the inquiry. The case might have been different had our inquiries led us to believe that we had discovered some single sovereign specific for all the difficulties which beset British industry and trade. As, however, will be clear to every reader of our volumes, this is not the case. Under each of the headings of our classification we have made certain recommendations, some giving rise to practical action, others deprecating forms of action which we believe to be harmful. The net result is a multiplicity of findings, some positive and some negative, some dealing with questions of principle and high policy, some with points of technical detail, of which the mutual connection and bearing on the central problem referred to us will not always be apparent without a comprehensive study of the whole Report.

While for these reasons we have abstained from appending to this Report any detailed summary of recommendations, we feel that before concluding our labours we ought to draw special attention to certain broad results of a practical order on which the whole of our investigations appear to converge.

It is unnecessary for this purpose to recapitulate what has been set out already in the present and the preceding volumes with regard to the general scope of our reference, the nature of the inquiries which we have pursued, or the lights and shades of the picture which has emerged from those inquiries. It has been made abundantly clear that in producing the economic situation in which this country finds itself, not one but many causes have been at work.

Some of these causes, like the growing tendency towards economic nationalism, the industrialisation of agricultural countries, or the periodic oscillations of industrial activity and employment, have been in operation for many years, and have only been intensified and brought into clearer relief by the economic dislocation caused by the great war.

Others are the direct offspring of war conditions, as, for example, the great destruction of life, the stoppage of emigration and the disturbance of the normal age distribution of the population; the after effects of the abnormal inflation of the "munition" industries the loss of goodwill caused by the cutting off of external markets the obstacles offered to the resumption of trade by the chaotic condition of foreign currencies and exchanges, and by the increase of trade barriers; and last, but not least, the huge destruction of wealth and the crushing burden of debt under which the country has been staggering since the war.

The combined result of these and other causes has been to impair the competitive power of British trade in overseas markets, and since the maintenance of this trade is vital to the very existence of the population, the main practical problem which emerges from all our inquiries is a perfectly plain one, *viz.*, to find the means of restoring the competitive power of British industry and trade without impairing the standard of living, and of enabling British exporters to place their products in external markets in sufficient volume and on terms acceptable to overseas buyers.

It is, we think, abundantly clear from our survey that the first step towards putting British industries in a position to compete successfully in overseas markets, is to subject their organisation and equipment to a thorough process of re-conditioning. To carry through this process successfully, two pre-requisites must be fulfilled. In the first place, there must be an active *will* to reorganise, based on real insight into the changing conditions and needs of the national and international economic situation. In the second place, there must be the *power* to reorganise, based on adequate means of access to the financial and technical resources necessary for material equipment, together with the wholehearted co-operation of all the human factors to ensure that the best results shall be obtained from the transformation.

It has been made plain in the preceding pages that the reconditioning of British industry will undoubtedly involve a great deal of scrapping and replacement of plant, and enlargement of the industrial unit, both by growth and by the re-grouping of units through consolidation or other forms of association, so as to obtain the full benefits of large-scale production, elimination of waste, standardisation and simplification of practice, and all the other measures of economy usually included under the comprehensive term of "rationalisation."

On the other hand, great judgment and discrimination and even restraint are necessary in carrying out the transformation, in order to preserve those special characteristics of variety and quality of products which have been the main strength of British industry and commerce. This necessity imposes severe limits on the extent to which simplified methods of mass production or schemes of intensive amalgamation can be advantageously introduced into British manufacturing industry.

Within those limits, however, there is an immense field for useful action, which must not by any means be confined to physical and technical reorganisation. The human factor is of supreme importance, and *pari passu* with the enlargement of the business unit and the reconditioning of plant and equipment it is essential that there should be at least an equivalent improvement in the quality of the higher control.

This involves a great change in the attitude of the average business man towards new ideas, and in particular towards the results of scientific research and of higher education. The fine natural qualifications of the British business community for industrial leadership, to which we have paid ungrudging tribute in the preceding pages, need to be supplemented and fortified, and to obtain freer scope and a wider field for their effective exercise, through the addition of other qualifications in which at present they are relatively deficient, and which require effort and training for their acquisition. The nature of these deficiencies and the remedies to be applied have been examined in the various sections of this Report. We have confidence that if our recommendations under these headings are seriously studied and whole-heartedly adopted, a type of industrial leader and administrator will be evolved who will be fully capable of directing British industry and trade, as re-equipped and reconditioned, to the best advantage.

Turning to the second pre-requisite of reorganisation, viz., the power to carry through the necessary changes, we find ourselves faced with two main limiting factors.

The first limit arises from the defective power of many depressed British industries, including some of those on which our competitive position has hitherto largely depended, to find the necessary capital to carry out the re-equipment which is essential to the restoration of their health. It has been shown that the root cause of this incapacity is not any defects on the part of the British banks or other financial institutions, which are undoubtedly able and willing to supply industry with all necessary facilities on reasonable terms of security. Nor does it arise from any indisposition of the public to subscribe new capital for industrial concerns provided that there is a prospect of obtaining a reasonable return. This is abundantly shown by the ease with which such industries as are earning good

profits are able to secure all the capital they need. The tap root of the mischief is the continued unprofitableness of so many industrial concerns, which makes them unable either to give security to the banks or to offer an attractive investment to the public.

We seem here, at first sight, to be faced by a dilemma, for industrial health can only be restored by the aid of fresh capital, and fresh capital can only be attracted by the restoration of healthy conditions. What is the way out of this vicious circle ?

There is no dearth of suggestions, including such diverse proposals as tariff protection, currency reform or the management of industrial enterprises by public authorities. On these subjects we have made what observations and recommendations we deem necessary in the various sections of this Report. Here it suffices to say that each and all of them has to be judged by considering its ultimate effects, direct and indirect, on our whole industrial and commercial position, rather than in relation to a single transitory problem however important. Without prejudice to our view on the questions of high policy here raised, and while fully recognising that the general economic policy of the State may contribute to ease the difficulties of the transition, we are profoundly convinced that the first steps towards breaking the circle must come from the industries themselves.

We do not believe that any of our principal basic industries have been so weakened, even by the long continued depression, as not to have the power within themselves to take the first measures towards their own regeneration, provided that they are thoroughly convinced that such measures are essential and unavoidable, and that they must be taken by themselves without reliance on any outside authority.

The precise nature of these measures must depend, of course, on the differing circumstances of each industry, but their essential character has been made sufficiently plain by our examination of the whole problem, both in our Surveys of Industries and in the section of this Report dealing with industrial structure and combination. At all costs, power of access to new capital must be regained, and for this purpose measures of financial reconstruction, writing down of capital and amalgamation with other undertakings, so as to increase the size of the business unit, are or may be among the essential measures to be taken, painful as some of them may be. If, however, these initial steps towards rehabilitation be taken with courage and judgment, each subsequent step will become progressively easier, until at length a fertilising stream of new capital will again begin to flow into the industry and solve, or simplify the ultimate solution of, the problem of reconditioning.

As the aim of reconstruction must be to operate the most efficient works full time, the result will be to afford the maximum amount of full employment and at the same time to diminish the number of part-time workers. Such a policy in its early stages may involve an

actual increase in the number wholly unemployed, and all possible steps should be taken to mitigate any hardship incidental to the transition. If, however, as we believe, this is the only practicable road by which competitive efficiency can be restored, it is better to face this temporary evil than to drag on as at present, and we may be confident that in the long run the industries which have regained their prosperity will be more than able to re-absorb those who for the time may have been displaced.

Considerations of this order lead naturally to an examination of the second important limiting factor with which we are faced when endeavouring to increase the efficiency and reduce the costs of productive industry. This arises from the imperfect co-ordination of the various human agents who contribute to the process of production. It is true that at the present time the relations among the different classes engaged in British industry, and particularly the relations between employers and employed, are certainly at least as good as in any other country and better than in most. Moreover, in spite of such symptoms of unrest and inflamed feeling as marked the widespread stoppages of 1926, we feel, and the evidence before us supports this view, that industrial relations are generally on a healthier footing to-day than has been the case for many years. This being so, the present is an exceptionally favourable opportunity to take a further step in the direction of close and intimate co-operation.

In the sections of this Report dealing with conditions of employment and industrial peace, we have put forward certain recommendations for completing and strengthening the means of joint consultation, negotiation and co-operation. We are convinced that the full advantages of the re-organisation and reconditioning of works and equipment can only be reaped, if the employees and their representatives are looked on as partners in a joint enterprise and frankly taken into confidence as such.

On the other hand, there is urgent need, not only among employers and managers, but at least as much among work people and their organisations, for a more vivid and intelligent appreciation of the importance of " mobility "—using the term in its widest sense, to cover, not only actual transference whether industrial or geographical, but also a mental attitude towards changes of environment, and the power and will to react promptly to such changes.

It is an essential condition of real industrial re-organisation on sound and efficient lines that each partner in production shall give of his best, and give it in such a way as to conduce to the maximum efficiency of the whole undertaking. To allow this principle full scope, an end must be made of trade restrictions and demarcation rules, whatever be their origin and explanation, which hinder a worker from exercising his full powers and intelligence in the performance of any work which he is capable of carrying out efficiently, on condition, of course, that he is properly remunerated.

We are aware of no other country that suffers nearly so much as Great Britain from artificial and hard and fast lines of demarcation between different skilled crafts, or between workers of different grades of skill, and this disability is more acutely felt than ever in a period of rapid economic change, when old lines of distinction are necessarily becoming less and less consistent with the realities of productive economy. We are glad to believe that the responsible leaders of labour organisations are becoming increasingly conscious of the importance of removing or relaxing demarcation rules that hinder industrial mobility, and we earnestly hope that they will lose no opportunity of urging on those whom they represent the vital necessity of taking the broader view. In the same connection it is satisfactory to note the growing trend of opinion in favour of some form of payment by results, whether individual or collective, which, if properly safeguarded, affords each individual or industrial group the maximum opportunity and incentive to exercise their skill and energy to the best advantage.

We do not under-rate the demands that will be made on all the partners in industrial and commercial enterprise if a serious effort is to be made to carry out our recommendations. We have dealt elsewhere in this Report with the steps that would have to be taken by the various trade Associations and other industrial and commercial organisations to equip and fit themselves in all respects to take the strain of the greatly increased duties which under our recommendations they would be called upon singly or jointly to undertake.

It is further evident that, if scientifically equipped and managed enterprises are to be operated with a hitherto unknown intensity, the problems of industrial fatigue and the whole range of questions generally classed as "welfare" cannot fail to assume a much increased importance, a consideration which adds great weight to our findings with regard to this group of subjects. Moreover, the changed conditions, especially during the stage of transition, are likely to make much higher demands on employers and employed for mutual consultation and co-operation than have hitherto been customary in British industry.

We confidently hope that all these new demands and new duties will find the ready and general response which the situation requires and the nation expects.

We are greatly indebted to the Board of Trade for all their assistance, not only (as already recorded) in lending the services of specially qualified officers for particular investigations, but also for arranging accommodation for the Committee in the Board of Trade buildings,

for supplying the small clerical staff attached to the Secretary, and for affording such excellent facilities for the copying and multiplication of the Committee's numerous documents.

Finally, we cannot speak too highly of the splendid services rendered to us by our Secretary, Mr. Walter Carter, of the Board of Trade, and our Assistant Secretaries, Mr. A. R. Fraser, of the Department of Overseas Trade, and Mr. W. L. Buxton, of the Ministry of Labour. They have displayed great ability, application and tact, as well as a wide knowledge of the numerous subjects which we have been investigating. Had it not been for their exertions our work might well have been greatly prolonged, and we are deeply grateful to them for the efficient way in which their part of this inquiry has been carried out.

We have the honour to be,

Sir,

Your obedient Servants,

(*Signed*) A BALFOUR (*Chairman*).
*JOHN BAKER.
*HENRY BOOTHMAN.
*J. T. BROWNLIE.
*W. T. CHARTER.
W. H. N. GOSCHEN.
F. A. HARGREAVES.
NORMAN HILL.
JOHN S. HINDLEY.
DAVID LANDALE.
W. CLARE LEES.
W. PETER RYLANDS.
*ARTHUR SHAW.
ALLAN M. SMITH.
H. LLEWELLYN SMITH.

WALTER CARTER (*Secretary*).

A. R. FRASER, W. L. BUXTON } (*Assistant Secretaries*).

29*th January*, 1929.

* Subject to the Memorandum on pages 303–314.

MEMORANDUM

referred to on previous page.

1.

We have been able to sign without reservation the series of Surveys published by the Committee, because they were descriptions of fact, presented for the most part without comment. But when we come to sum up and state the conclusions to which we are led by those facts, by the evidence we have taken, by the printed material available to us, and by the movement of events while we have been sitting, we feel the Report inadequate to the serious situation in which our country finds itself, and think it a duty to make our stand-point clear by the following statement.

2.

We desire to acknowledge fully the extent to which our colleagues have gone in their attempt to meet us. In detail, and in many of its separate sections, there is a great deal in the Report which we accept, and we shall make no attempt here to traverse all the ground which it covers; nor shall we here enter into the large international issues involved, on which we are generally in agreement with our colleagues, though we would emphasise the urgency of Great Britain's honouring its pledge under the Peace Treaty to adhere to an International Convention regulating hours and other conditions of labour with a view to raising the standard of life throughout the world.

The fact, however, that there are elements in the world trading situation not within our national control makes it the more necessary for Great Britain to cope speedily, energetically and effectively with those that are. What we cannot accept is the view, running right through the Report, that nothing can or need be done by way of fundamental modification of the traditional approach to national economy and the assumption that private enterprise and free competition can be left, by themselves, gradually to right things. This view seems to us to under-estimate both the serious nature of the facts with which we are confronted, and the great changes that have taken place and are still taking place in economic structure and outlook throughout the world. Problems difficult at the time of our appointment have become menacing in 1929. There is small sign of any recovery of our overseas trade, and its depression is dismally reflected at home. Despite the tightening-up of administration, the number of registered unemployed and of under-employed increases rather than diminishes, and it is in our basic industries that unemployment is most severe. In 1928 the average percentages were, 24 in coal-mining, 26·5 in shipbuilding, 16·5 in pig iron, 21 in steel, 12 in cotton, 12 in wool, and 10 in general engineering. The seats of one of our most important industries have become a series of distressed areas, and what has already happened in coal threatens elsewhere.

3.

We are dependent as a nation, in the long run, on the purchase of food and raw materials from overseas by the exchange of our own products and services. We have to-day to sell those products and services in a world in which industrialisation has proceeded with extreme rapidity, and has taken on new forms. A new situation faces our country, and one whose main features are now perceptible, and not transitory. Elsewhere, a rapid and general transformation in economic organisation and industrial structure is going on, largely assisted by reciprocal action on the part of the State, on a scale and at a rate which, when 1929 conditions are compared with those of pre-war, or even of ten years ago, constitute a revolution. Many of the conditions presented—those characteristic of the aftermath of a great war on the one hand, and those characteristic of the impact of new scientific discovery on the other—resemble those presented at the turn of the 18th–19th centuries. Then, Great Britain forged ahead in virtue of the fact that we were able more rapidly and thoroughly than any other country to accept and apply new principles of economic organisation imposed by scientific invention. To-day a similar revolution is going on. Again, the essential change consists in a fresh application of collective methods of organisation and control. Moreover, at bottom it is a change not only of mechanics but of motive. The keys to the new order are not competition, individual acquisitiveness, or self-seeking, but co-ordination, science, and service. In proportion as these ideas are applied with courage and confidence, and on a resolutely thought-out plan, prosperity—in the sense of a general return of satisfaction to effort—is possible. We are convinced, by the evidence we have taken, and by the facts and tendencies shown throughout the post-war world, that in so far and only in so far as it accepts these fundamental ideas as the guiding line in national reconstruction our country can again take the leadership in the family of nations.

4.

Actually, it is in proportion as the principle of co-operative action and control is accepted that we find economic success achieved, both at home and abroad. There is nothing accidental in the achievements of organisations of consumers like the English Co-operative Wholesale Society, the Scottish Co-operative Wholesale Society and their 1,300 affiliated retail societies; nor in the fact that, within our own productive industry, the sections whose organisation is most individualistic (coal, metals and textiles) are the most embarrassed, whereas others that either in the past (dyeing and finishing trades) or more recently (chemicals, electrical equipment) have organised collectively are relatively flourishing, while in the newer industries the tendencies to combination are very marked. Even more significant is the complete break-away from the ideas of private enterprise and laissez-faire represented by the great and

growing body of social legislation and nationally organised social services, of which we are justly proud, and by the regulation, in many directions, of public utility services. Recent instances are the subjection of broadcasting and electricity supply to national control. In the case of electricity supply, the danger to national interests involved in the creation, by private enterprise, of a network of complicated and divergent methods of production and distribution, and of the need of an organisation calculated to render better service, has compelled the State to step in, on the ground that where individual interest conflicts with national interest, the latter must come first. On similar grounds, two Royal Commissions have recommended the nationalisation of the natural resources of the great basic industry of coal. The post-war legislative grouping of railways has prepared the way for a national organisation of transport. In urging, therefore, that a policy logically expressive of the predominance of national over sectional interests be adopted by this country, we are only asking for the planned acceleration of what has already been begun under the irresistible pressure both of a sense of social justice and of economic efficiency.

5.

In recommending an extension of public control over many departments of national life hitherto excluded from it, we have throughout in mind the fact that our terms of reference put in the forefront the securing of "sufficient and continuous employment and a satisfactory standard of living." They direct us specifically, that is to say, not to the maintenance and increase of business profits but to the purpose for which trade and production exist. We welcome this direction and stress its inference. A satisfactory standard of life for all concerned is not a side issue; it is *the* issue from the economic, no less than from the human, point of view. We believe that it can only be secured in broad and general measure if it is consciously and directly put in the forefront of national endeavour, and that to do so is economically imperative. It is on this conviction that the whole of what we have subsequently to say is grounded. Since we are confronted in Britain to-day with some of the results logically bound to follow from the point of view which sees a reduction of wages as the sole method of reducing costs, we feel it necessary to re-state the elementary and self-evident proposition that any measures which tend to reduce the standard of consumption of any section of the people are economically destructive, since they extend and protract depression, which spreads in a vicious circle from the group first affected to the rest. Wage cuts have been forced upon engineers; short time has been chronic in cotton; extended hours have been imposed upon coal-miners. The outcome has been that the low standard of consumption of workers in coal, cotton and engineering has reacted on the production and selling power of all industries supplying the necessaries

of life. The greater efficiency which may produce a reduction in real costs can only occur where there is a high not a low standard of living for the worker. That, in our view, can be secured —but only by a social and economic reorganisation of a drastic character which enlists the manual worker equally with the director, the manager and the technician as willing servants of the community.

6.

While by no means under-estimating the significance of the economic position of our overseas customers, we would emphasise the equal significance of the economic position of the great mass of our producer-consumers at home. Into the costs of our export products to-day there enters, as a most important element, the degree to which the industries making and marketing them are working below full capacity. The Census of Production registers the striking fact that, in 1924, out of the total engine-power available to industry no less than one-sixth was in reserve or idle, while of the electric generators nearly one-fourth were in reserve or idle. Our evidence indicates that hardly any of our basic industries are working, or have been working for the last seven or eight years, at more than 60–70 per cent. of capacity. " If we can increase production, costs are reduced by that alone." This view, stated to us in relation to the iron and steel trade, does not there, nor in engineering, textiles, or shipbuilding—the industries in which, with coal-mining, depression and unemployment are most marked—cover the case, since it leaves out of account the large economies that might be secured by the co-ordination of industries; it does, however, bring out an important aspect of our problem, which deserves to be underlined. Under-employment of plant, with its consequence, an excessive burden of overhead charges, is the correlative of under-employment of labour. The volume and character of home demand enter vitally into export efficiency. From two-thirds to three-quarters of our total production is for the home market. It would be hard to find a trade which caters solely for export. For the last seven or eight years, in most industries, the weakness of the home market has contributed with that of the export market to send up the price at which export goods can be produced. Lack of purchasing power in the hands of the workers at home has been reacting on the economic efficiency of the entire productive apparatus. As another witness put it to us, " It is really consumption that is the determining factor."

7.

The paramount importance of a high general consumption is more widely recognised in the United States than, as yet, here. Actually, however, a high general standard is even more important to us in Great Britain than to them, in so far as they are still working the top layers of abundant and relatively easily accessible natural resources,

whereas we have mainly to rely on the differential advantages accruing from long experience and all that goes by the name of industrial skill in the widest sense. Figures worked out for us by the Board of Trade and referred to in our Survey (Vol. I) show that there has been since 1913 a slight but significant increase in the relative proportion of manufactured goods to the total value of our exports. Manufactured goods accounted for 78·8* per cent. of the total value of our exports in 1913, 79·7 per cent. in 1925, and 79·5 per cent. in 1927. Moreover, it appears that the increase in values per unit of manufactured exports is due at least in part to a higher average grade or quality of goods exported as compared with pre-war. The importance of quality as an element in our competitive power was stressed by many of our witnesses. We hold our own and can surmount all but prohibitive tariff barriers in virtue of the high quality of our goods. This applies both to textiles and to the products of the metal trades. We do not suggest, nor does this emphasis on quality imply, that Great Britain should resign the manufacture of bulk lines; what we do suggest is that there is in our case a direct connection between quality and our hold on the world's markets, and that the efficiency of relatively well-paid labour is a factor of primary importance to us, and one that is increasingly important as the world is progressively industrialised. This point must, in our view, be kept in mind in all that follows.

8.

Quality, like the efficiency of which it is the other name, depends on a combination of two main groups of factors (1) the capacity of the persons engaged in production, whether as managerial, technical, or manual workers; and (2) the organisation behind them. The two are, in action, indissolubly inter-twined, but may be temporarily distinguished in description. So far as (1) is concerned, the excellence of the natural material available in Great Britain is not open to doubt, but we are not satisfied that it is at present being fully elicited, or can be, so long as the present grave inequalities in the distribution of wealth remain. The problem is not only one of making available the fullest educational facilities (which should definitely envisage the worker's leisure as well as his employment) and of putting all the children of the nation in a position to take advantage of them through an adequate national housing programme. It raises the whole question of the incentive to work. Whatever value be attached to the incentive of individual profit as a factor in efficient production, it cannot apply to the vast majority of wage and salary earners to-day; it applies to a decreasing extent even to the manager or director. Over the large area of professional, municipal and civil service employment, what actually impels the

* On the same classification as for the post-war years.

worker is the sense of service and the desire for efficient performance as an end in itself. We believe that this sense can and should be fostered and stimulated. It depends, in the long run, partly on education, but mainly on such an organisation and equipment of the community itself as will call out the instinctive loyalty of the citizen to it. It can, in the meantime, be assisted by (1) the wide introduction of a regular contract of service, with a standard minimum basic rate; (2) the wide extension to the workers of responsible participation in the organisation of their work; (3) full publicity as to finance.

9.

When we turn to organisation we find the individual in the post-war world more dependent upon it than ever before. Along varying lines, the last quarter of a century has witnessed a mighty transformation from individualistic to co-operative methods of action. In this country the corporate structure, built up of necessity to meet the emergency of war with its demands for maximum efficiency no matter at what cost in the scrapping of habitual notions, was hastily dismantled after the Armistice, and few of its lessons seem to have been laid to heart. Very different has been the experience in the countries which compete with us for a share of the world's trade. In one way and another, the most important of our rivals and customers have swiftly and progressively readjusted their productive apparatus and reorganised in terms of the new power placed at the disposal of trade and industry by science and co-operation. To mention only the most important countries, this has been the case in Germany, in France, and in the U.S.A. Germany* is for us the most instructive case, since there reorganisation has been accomplished under the pressure of difficulties greater than ours. The inflationary period closed in 1923; since then immense strides have been made in the scientific reorganisation and re-conditioning of industries, with the result that, despite the fact that the Republic lost some of its most valuable industrial districts under the Peace Treaty, and has had to rely upon capital borrowed from the U.S. for its finance, it is again a serious rival in world markets. In France,† combination and concentration have been applied to a long list of major industries, and the re-equipment of the devastated areas has been carried through on the most modern lines. There, as in Germany, the process of reorganisation and co-ordination has been carried through under a large measure of State supervision and assistance. The United States is popularly regarded as the home of individualism, but there, too, national control over finance, city and State taxation of land, and the collective organisation of industry are the dominant notes. The huge activity of the Department of

* D.O.T. Reports (1927 & 1928).
† D.O.T Report 1928.

Commerce of the Federal Government, in inciting and assisting each industry to adopt the most efficient organisation and devices, is in marked contrast to the traditional attitude of the corresponding British Departments. In each case, co-ordination is the major premise in the full application of scientific results to industry, both in the utilisation of research, the training of management, the pooling of ideas, and the establishment of co-operative selling organisations.

10.

To the process of scientific reorganisation and co-ordination of an industry the word Rationalisation has been applied. As worked out in relation to the coal, iron and steel, chemical and power industries of Germany, this implies the reorganisation of industries, as industries, on a coherent and co-operative plan. The technical reconstruction involved, issuing in a common production and price policy, may, but need not, take the form of trustification. As defined by the Geneva World Economic Conference in 1927, it covers " the methods of technique and organisation designed to secure the minimum waste of either effort or material. It includes the scientific organisation of labour, standardisation both of material and of products, simplification of processes, and improvements in the system of transport and marketing." Rationalisation in this sense, however, may obviously be a purely mechanical process, which takes no account of the worker as an intelligent factor, or of the general interest of the community. In so far as it is this, and no more than this, it cannot bring into action the motive of service, and may fail to diffuse the benefits resulting from a reduction of real cost through the body of consumers. At all stages, both responsible participation by the workers and a vigilant maintenance of the general social interest by the State, as representing the community, are essential if industrial reorganisation is to raise the national standard of life. We wish, therefore, to make it quite clear that when we speak, in the paragraphs which follow, of such reorganisation as necessary and desirable in our export industries, we have always in mind a reorganisation in which these governing social considerations are kept in view.

11.

Our evidence reveals clearly the connection between the utilisation of research and large scale organisation, and the wastefulness of internal competition, both on the productive and the distributive sides of our industry and trade. The multiplication of intermediaries is a burden, notably on the home trade—whence its effects react on to the export side: in selling, as one witness put it, " Purely individual effort cannot succeed against the combined and highly organised efforts of competitive countries." Incapacity or unwillingness to co-operate meet us again and again.

During the period when we were taking evidence (1924–27), the general tenor of what was said to us by trade witnesses was to dismiss scientific reorganisation as impossible in view of the circumstances, or as contrary to the spirit, of British industry, and this although the most individualistic industries were also the most depressed. It is true that in the last two years there have been signs of a movement in this direction that, though partial and sporadic, is highly significant, since it has been compelled not by any acceptance of theoretic propositions but by the stern pressure of necessity. We cannot, however, disregard the impression conveyed to our minds by our witnesses that any progress in this direction will, if the industries are left to themselves, be very slow, irregular and incoherent. With few exceptions, what has been going on and, so far as we can see, is likely to go on, is the re-equipment and possible grouping of firms, but not the organisation of industries as industries. Thus, combined marketing arrangements have been arrived at in certain mining areas, but no general movement for the unification of the industry seems to be contemplated. Amalgamation is being forced on cotton spinners as an alternative to " the present process of slow liquidation and closing of mills by bankruptcy." Here, as in engineering and iron and steel, the after effects of over-capitalisation provide the spur. Extensive writing-down and certain great amalgamations have recently been accomplished in the metal industry, but there has been no attempt at general reorganisation, although we received ample evidence of the inferiority of much of the equipment and wastefulness in the use of fuel by many firms in comparison with the best practice either at home or abroad. We have already referred to the manner in which the way has been prepared for orderly co-ordination of transport by the grouping of railways, and for that of power supply by the establishment of the Electricity Commissioners.

12.

Here are certain hopeful beginnings, but against them must be set the individualism of the typical British manufacturer and trader: his persistent belief in secrecy in trading matters; the financial difficulties in which so many firms are involved; and above all, the lack of any habit of co-operation. These habitual traits imply that change will take place slowly, partially, and only under pressure of necessity. In so far as this is the case, every hardship incidental to reorganisation will be aggravated. Of the evils of delay in initiating it, we have a tragic illustration in the coal fields. There we are face to face with the results of a policy of waiting for hardship to force reorganisation on an industry. In the mining areas, while armies of men are wholly without work and dependent on charity for the necessaries of existence, those still employed, on long hours, are earning wretchedly low wages. The outcome is that a depression unaccompanied by any hope is being spread from coal through other

industries, which are consequently weakened and incapacitated to reorganise themselves. The national loss and even danger involved in this are obvious. We believe that the long delay which must be expected if we leave the industries to work out their own salvation will aggravate both the difficulties and the hardships incidental to the transition and that, alternatively, contemporaneous reorganisation in a number of industries will at once facilitate and shorten that transition period for each. Therefore, we find it impossible to agree with our colleagues that reorganisation, whose economic necessity they admit, can or will in fact take place except through the initiating activity and with the support of the State. This opinion—the clearest we have derived from the course of our investigations—has been forced in upon us by the facts we have had to study in all their bearings. To us those facts, and the manifold difficulties in which the trade and industry of Great Britain are to-day involved, all, from their varying angles, indicate the inadequacy of Capitalism, as we have known it, and the progress of a change going on in social and economic organisation—a change from a predominantly individualistic to a predominantly social type. In so far as our country accepts and acts on the principle of rapid, conscious and planned adaptation of its productive and distributive apparatus to this new, social type, it can recover; and the more speedily and thoroughly it does so accept and act upon it, the more rapid will be its recovery. That adaptation, however, involves a planned and co-ordinated use of the community's resources, such as can only take place under the direction of the State.

Not only are we convinced that to wait and see is a policy of despair, bringing specific evils in its train, and making it highly probable that such reorganisation as is effected will be of the merely mechanical kind which we condemn. We hold that the State, deeply concerned as it must be, ought to supervise the reconstruction process, so as to secure that it is in each industry carried through with the close and constant co-operation of the workers concerned, and in such a form as to give them a real share in it; and carried through, as between the various industries, on a coherent and co-ordinated plan, such as may secure that the gains are not wholly monopolised by groups, sections or individuals, but as far as possible diffused through the community. Incumbent on the State further is the obligation to facilitate and support reorganisation by national measures both temporary (maintenance of unemployed), and permanent (measures of national re-equipment).

13.

Holding this view, we feel that it is our duty further to sketch, in broad outline, the steps by which we think that it might be carried into execution. The crisis in our national economic life, in our judgment, requires the establishment of two new bodies, which

we may call the National Economic Committee and the National Employment and Development Board. First, we think there is required an organ, closely and permanently associated with the government, whose primary business is to know the facts in a scientific way and see them as a whole. This task would fall to the National Economic Committee, under the Prime Minister, and equipped with an efficient staff. It would map out the general lines of reconstruction, and then, in close consultation and conjunction with representatives of employers and employed in the various industries, and of consumers, draw up and correlate plans for reorganisation, industry by industry, with a time-limit of a reasonable character for their introduction.

In Germany, where the earlier rationalisation plans were carried out spontaneously by the industries themselves, latterly, the Economic Advisory Board set up by the State has contributed notably to the framing of a common policy for the application of the principles of rationalisation to other industries and to commerce. Here we believe that some such organ as we have indicated, whose approach would be scientific and disinterested, and which would be equipped with knowledge of the whole field, is essential. Its instruments would be, in the first instance, knowledge, and, in the second, publicity. We believe strongly in the power of publicity for the checking of abuses; but, if it is to be effective, it must have behind it the authority to act.

Therefore, while the functions of the National Economic Committee are scientific and advisory, there must also be a National Employment and Development Board, to see that plans worked out by the former in conjunction with the industries themselves are actually initiated within the time limit and carried through to the public interest: or, if not, to establish Control Boards of a representative character for the industry or industries in question, in cases where they are not ripe for complete nationalisation.

It would, in addition, be the task of the National Employment and Development Board to plan, co-ordinate and set going useful schemes of public work on lines that would promote national efficiency, and relieve unemployment—both that now existing and that resulting, in the transition period, from reorganisation.

14.

This does not, however, exhaust the responsibility of the State. In these measures it would be taking steps of constructive advance towards an economic organisation of a definitely social character, which require the laying of certain foundation stones. To that end the State needs to resume national control over certain indispensable elements in production.

The first of these is the *land*. Everyone desiring to erect a factory, build a house, lay a railway, or construct a harbour must have access to land, but, to-day, unless already an owner, he must first seek permission from some landowner, and bribe him to acquiesce in the request by paying such price as he feels he can command before access will be allowed. Every such application increases the price of land; the erection of houses and factories increases the price of land; the construction of new main roads increases the price of land; and all this increased cost must ultimately find its way into the cost of the products of the factory, etc. It is a primary obligation on the community and its elementary duty to industry to secure by national control that the land shall be effectively used, available for social purposes, and free from obstruction. We doubt whether these purposes can be secured in the long run except by public ownership, and understand that the particulars available in the Inland Revenue Department would dispense with any necessity for an *ad hoc* valuation.

Analogous is the case of coal, ore, limestone and other minerals. Here, in 1926, the coal owners actually closed the mines, and said they could only be worked under certain conditions of their own imposition. The reorganisation of the *Mining* industry, source as it is both of fuel and power, is of vital importance to all other industries and to the country's life. The recommendation of the 1919 and 1925 Royal Commissions as to the nationalisation of minerals and that of the 1919 Commission as to the nationalisation of the mines themselves should be adopted and put into force immediately.

Second only to land and fuel in importance to industry is *transport*. We believe that road and rail transport should be co-ordinated and organised stage by stage, as a nationally controlled service. In the first instance, the railways and main arterial systems should be taken over and a plan of decentralised control then worked out in close conjunction with the local authorities—whose general powers should further be strengthened by the passing into law of the Local Authorities (Enabling) Bill.

The power vested in the *Electricity* Commissioners for dealing with redundant plant and establishing a nationalised system of supply should be strengthened, and the whole question of the price of electrical equipment explored by public enquiry. This method of enquiry and publicity should, indeed, be used wherever there is ground for thinking that the consumer is being exploited.

We fully recognise the importance of the supply of *finance* to re-constructed industry, and, without going back over the complex issues raised by the effects on industry of the return to the gold standard, think that, in future, decisions of such far-reaching national importance should be taken by a body more amenable to public control; in other words, that, as a property the Bank of England should be nationalised and its government entrusted to a

Board representative of the Government, banking technique, finance, industry, and the Trade Union and Co-operative movement. We further think that the type of public policy represented by the Export Credits scheme needs to be developed, notably in the extension of government credit for long-term social welfare schemes. The service most remunerative to the investor may not be that most needed by the community.

15.

We believe that action on the broad lines we have indicated is necessary, and that, if it is taken, and taken in time, the prospects of British trade and industry, to which this Committee was addressed, are full of hope. We have felt it a duty to express these views, since, in our judgment, they arise out of the facts which we were appointed to study. We have not here attempted to cover the entire area of our long and complicated enquiry; rather have we sought to concentrate attention on one aspect—the re-organisation of production in definite and conscious relation to the national standard of life—which, in our view, is so vital that, if it is neglected, no other measures, however useful in themselves, can be of any avail.

Those of us who have not felt able to sign the Report take this opportunity of warmly endorsing what is there said as to the admirable services of the Secretariat.

(*Signed*) JOHN BAKER.
HENRY BOOTHMAN.
J. T. BROWNLIE.
W. T. CHARTER.
C. T. CRAMP.
MARY AGNES HAMILTON.
ARTHUR SHAW.

APPENDIX I.

LIST OF WITNESSES, ETC.

A.—Witnesses Representing Organisations.

Agricultural Engineers' Association..	Mr. J. H. W. Pawlyn, Sir W. Tritton, Messrs. H. Marshall, G. E. Rowland.
Amalgamated Engineering Union ..	Mr. W. H. Hutchinson.
Association of British Chambers of Commerce.	Mr. H. C. Field, M.A., J.P.
Association of British Chemical Manufacturers.	Mr. W. J. U. Woolcock, C.B.E. (General evidence) ; Armstrong, Dr. E. Frankland, D.Sc., Ph.D., F.R.S., LL.D. (Dyestuffs).
Association of Export Merchants of Raw Materials and Yarns (Bradford).	Messrs. J. Clay, R. J. Sugden.
Association of Joint Industrial Councils and Interim Reconstruction Committees.	Messrs. F. H. Hand, M. R. Allard, G. Harrison, T. B. Johnston.
Birmingham Chamber of Commerce (Inc.).	Messrs. G. H. Wright, R. Atkin.
Bleachers' and Finishers' Association	Messrs. H. Quin, B.L., F.C.A., W. Keith.
Bleaching Trade Advisory Board ..	Messrs. A. K. Davies, T. Murdoch, R. C. Reynolds, Stanley Mack.
Bradford Merchants' Association ..	Mr. J. D. Law.
British Cotton Growing Association..	Mr. (now Sir) W. H. Himbury.
British Cycle and Motor Cycle Manufacturers' and Traders' Union, Ltd.	Mr. H. R. Watling.
British Electrical and Allied Manufacturers' Association.	Messrs. D. N. Dunlop, O.B.E., Hugh Quigley, M.A., C. Rodgers, O.B.E., B.Sc., B.Eng., M.I.E.E.
British Engineering Standards Association.	Mr. C. Le Maistre, C.B.E.
British Engineers' Association (Inc.)..	Mr. D. A. Bremner, O.B.E., M.I. Mech.E., M.I.E.E., M.I.M.M.
British Manufacturing Confectioners' Export Union.	Messrs. G. W. Morrison, L. Cadbury.
British Merchants' Morocco Association	Messrs. M. B. Milne, P. B. Robinson, J. M. Parker, L. J. Brown.
British Research Association for the Woollen and Worsted Trades.	Messrs. H. Clough, A. Frobisher.
British Wool Federation	Messrs. H. Dawson, J.P., W. Harrison.
Cable Makers' Association	Mr. L. B. Atkinson.
Carpet Manufacturers' Association ..	Mr. H. Tomkinson.
Carpet Manufacturers' Federation ..	Messrs. R. B. Worth, P. H. Blackwell, F.C.A.
Chamber of Shipping of the United Kingdom.	Mr. A. B. Cauty, Sir Ernest W. Glover, Bart.
China Association	Messrs. W. B. Kennett, S. H. Dodwell.
Co-operative Wholesale Society ..	Sir Thomas W. Allen.

LIBRARY

Cotton Spinners' and Manufacturers' Association.	Messrs. J. H. Grey, H. Astley-Bell, J. Smith, H. Livesey, T. Ashurst.
Crucible Steel Makers' Association..	Mr. C. W. Kayser.
Department of Overseas Trade ..	Sir William H. Clark, K.C.S.I., C.M.G. (Comptroller-General).
Empire Cotton Growing Corporation..	Sir James Currie, K.B.E., C.M.G.
Employers' Association of the Port of Liverpool.	Mr. Michael Brett.
Engineering and Allied Employers' National Federation.	Sir John Dewrance, G.B.E., P.P.I.Mech.E., M.Inst.C.E., M.I.N.A.
Export Credits Guarantee Department	Mr. F. H. Nixon (Manager).
Family Endowment Society	Miss E. F. Rathbone.
Federation of British Industries ..	Messrs. R. T. Nugent, C. Tennyson, C.M.G., G. H. Locock, C.M.G., R. G. Glenday, M.C.
Federation of Calico Printers	Messrs. J. H. Swallow, A. Edmeston, F. Hewit, R. T. Turnbull, J. L. Edmondson.
Federation of Master Cotton Spinners' Associations, Limited.	Messrs. W. Howarth, J.P., F. Holroyd, J.P., G. A. Barnes, Lt.-Col. N. Seddon Brown, J.P., Messrs. H. S. Butterworth, W. H. Catterall, H. Cliff, C. Hilton, M.P., F. Mills, J.P., W. M. Wiggins, J.P., M.P., John Pogson, W. R. B. Mellor.
Federation of Woollen Merchants' and Shippers of Great Britain and Ireland.	Mr. Francis Wigglesworth, Col. W. Thorburn, Mr. J. Miller.
File Manufacturers' Association ..	Mr. A. S. Pye-Smith.
General Federation of Trade Unions..	Mr. W. A. Appleton, C.B.E.
Incorporated Federated Associations of Boot and Shoe Manufacturers of Great Britain and Ireland.	Mr. H. J. Bostock, Miss R. Tomlinson.
Industrial Fatigue Research Board.	Mr. D. R. Wilson, M.A.
Industrial Welfare Society	Rev. R. R. Hyde, Sir W. Waterlow, Mr. I. Braby, Miss J. Varley, Mr. F. S. Button.
Institute of Industrial Welfare Workers (Inc.).	Miss E. T. Kelly, Mr. A. S. Cole.
Irish Linen Merchants' Association ..	Major J. M. Henderson, Mr. R Hetherington.
Iron and Steel Trades Confederation ..	Mr. A. Pugh.
Iron and Steel Wire Manufacturers' Association.	Sir W. Peter Rylands, Mr. Fred Smith.
Joint Industrial Council of the Printing and Allied Trades of the United Kingdom.	Messrs. A. E. Goodwin, A. E. Holmes.
Joint Parliamentary Committee of the Co-operative Congress.	Mr. A. V. Alexander, M.P., Mr. Cooper, Prof. F. Hall, M.A., B.Com., Messrs A. Pickup, R. Stewart, J. J. Worley.

Kettering Industrial Co-operative Society, Limited.	Mr. A. Joyce.
Labour Co-partnership Association (now Industrial Co-partnership Association).	Lt.-Col. J. H. Boraston, C.B., O.B.E., Messrs. T. C. Taylor, J.P., E. J. Burrow, F.R.G.S., F. Robinson, W. Wallace, B.Com., C. Plaistowe, E. W. Mundy, B.A.
Liverpool Steamship Owners' Association.	Mr. A. B. Cauty, Sir Ernest W. Glover, Bart.
Locomotive Manufacturers' Association	Messrs. A. Campbell, O.B.E., C. N. Goodall, O.B.E., G. Dabell.
London Co-operative Society	Mr. S. Foster.
Manchester Association of Importers and Exporters.	Mr. F. T. T. Reynolds.
Manchester Cotton Association ..	Mr. W. Howarth, J.P.
National Association of Coke and Bye-Product Plant Owners.	Mr. R. A. Pease (now Sir Richard A. Pease, Bart.)
National Council of the Pottery Industry.	Major F. H. Wedgwood, Messrs. A. B. Jones, Junr., S. Clowes, M.P., W. Aucock, F. H. Hand.
National Federation of Glass and Allied Trade Unions.	Messrs. R. Fenton, J. Stokes, C. Blackwell.
National Federation of Hosiery Manufacturers' Associations.	Mr. A. Kemp, J.P.
National Federation of Iron and Steel Manufacturers.	Sir W. Larke, K.B.E., Messrs. M. S. Birkett, O.B.E., M. F. Barnard.
National Flint Glass Makers' Society of Great Britain and Ireland.	Councillor W. Bradford, O.B.E., Mr. J. Husselbee.
National Gas Council	Mr. (now Sir) David Milne Watson, M.A., LL.D., D.L., Messrs. E. J. Fottrell, B.Sc., H. E. Ibbs, W. J. Smith.
National Institute of Industrial Psychology.	Dr. C. S. Myers, C.B.E., M.D., F.R.S.
National Light Castings Association..	Messrs. J. King, A. Wallace, G. Scotland.
National Society of Pottery Workers..	Messrs. A. Hollins, H. T. Forman, W. Machin.
National Union of Commercial Travellers.	Mr. G. R. Mason.
National Union of General and Municipal Workers.	Mr. W. Sherwood, Miss Margaret G. Bondfield, J.P. M.P., Alderman G. P. Dean, J.P.
Piece Dyers' Association	Messrs. G. V. Clay, G. Douglas H. R. Armitage, H. Sutcliffe Smith, T. D. Buttercase, C. W. Wade, E. P. Taylor, W. A. Willson.
Provisional Emergency Cotton Committee.	Messrs. S. S. Hammersley, M.P., L. Law, T. Driver, S. Langshaw, T. Jenkins, J. Ryan, W. H. Slater.
Railway Companies' Association ..	Sir R. L. Wedgwood, C.B., C.M.G.

Scottish Co-operative Wholesale Society.	Mr. W. Gallacher.
Sheffield Chamber of Commerce and Manufactures (Inc.).	Messrs. J. H. Doncaster, M.A., J.P., T. G. Mander, A. Law.
Sheffield Cutlery Manufacturers' Association.	Mr. J. G. Elliott.
Shipping Federation	Mr. Michael Brett.
Shipping Merchants' Committee of the Manchester Chamber of Commerce.	Messrs. W. E. Thompson, W. Maxwell Reekie, J. H. Rodier, E. Raymond Streat.
Society of Motor Manufacturers and Traders, Ltd.	Lt.Col. A. Hacking, D.S.O., M.C., Mr. J. C. J. Phillips.
Society of Technical Engineers ..	Messrs R. Hazleton, J. F. Marsden.
South African Trade Association ..	Mr. W. Mosenthal.
Standing Joint Committee of Mechanical Road Transport Associations.	Mr. E. S. Shrapnell-Smith, C.B.E., M.Inst. T.
Steel Re-rollers' Association	Mr. F. Scarf.
Tapestry Carpet Manufacturers' Association.	Mr. J. S. M. Jack.
Telephone Development Association ..	Mr H. E. Powell-Jones.
Trade Exhibition Organisers' Association.	Messrs. H. H. Benjamin, K. W. Bridges.
United Commercial Travellers' Association of Great Britain and Ireland (Inc.).	Mr. F. Coysh.
United Tanners' Federation	Dr. E. C. Snow.
Welsh Plate and Sheet Manufacturers' Association.	Mr. H. C. Bond.
West Riding Chambers of Commerce ..	Sir H. Whitehead, J.P., Messrs. F. L. Moorhouse, J.P., S. H. C. Briggs, G. W. Laxton, D. Hamilton, C. F. Mallett, H. T. Tulloch, L. V. Driffield.
Wire Netting Manufacturers' Association.	Sir W. Peter Rylands, Mr. Stanley Howes.
Wool (and Allied) Industrial Employers' Council.	Messrs. H. Clough, E. Martin, G. Whitaker.
Wool Textile Delegation	Messrs. J. S. Law, H. B. Strang.
Woolcombing Employers' Federation	Mr. A. E. Raper.
Woollen and Worsted Trades Federation.	Messrs. H. B. Shackleton, W. O. R. Holton, G. H. Wood, J. Broome.
Worsted Spinners' Federation, Limited	Messrs. F. Mitchell, W. Turner.
Woven Wire Manufacturers' Association.	Mr. A. L. Johnson.

B.—Witnesses appearing in an individual capacity.

Askwith, Lord, K.C.B.

Ball, Mr. A. B. (Secretary, the Silk Association).
Benn, Sir Ernest J. P., Bart., C.B.E.
Bowley, Prof. A. L., Sc.D., etc., accompanied by Mr. G. L. Schwartz.
Broderick, Mr. (now Sir) J. Joyce, C.M.G. (Commercial Counsellor, H.M. Embassy, Washington).

Cahill, Mr. J. R., C.M.G. (Commercial Counsellor, H.M. Embassy, Paris).
Capron, Mr. A. J., O.B.E.
Crammond, Mr. E., F.S.S.

Edwards, Commander P. Harrington, D.S.O.

Hirst, Mr. F. W.
Hunter, Sir George B., K.B.E., D.Sc., M.I.C.E.

Keynes, Mr. J. M., C.B., M.A.

Lewis, Sir Frederick W., Bart.
Lyde, Prof. L. W., M.A.

Macgregor, Prof. D. H., M.C.
Mackenzie, Sir William W., G.B.E., K.C. (Chairman of the Delegation appointed to study industrial conditions in Canada and U.S.A., 1926).
Manley, Mr. H. T.
Middleton, Mr. H. W.
Mond, Rt. Hon. Sir Alfred, Bart, M.P. (now Lord Melchett).

Newman, Mr. W. F.

Ormsby-Gore, Hon. W. G. A., M.P. (Under Secretary of State for the Colonies).

Rowntree, Mr. B. Seebohm.

Schuster, Sir Felix, Bart.

Vyle, Mr. (now Sir) Gilbert C., accompanied by Mr. R. B. Dunwoody, C.B.E.

Withers, Mr. Hartley.

C.—Organisations furnishing written evidence.

Chemical Employers' Federation.

Decimal Association.
Drapers' Chamber of Trade.
Dundee Chamber of Commerce.

Electric Lamp Manufacturers' Association.
Employers' Federation of Cotton Yarn Bleachers, Dyers and Sizers.

Lancashire Shareholders' and Loanholders' Association.

National Association of Unions in the Textile Trade.
National Chamber of Trade.
Northampton Chamber of Commerce.

Paper Makers' Association.

Scottish Woollen Trade Mark Association.
Sheffield and Eccleshall Co-operative Society.

United Textile Factory Workers' Association.

D.—Information furnished to the Committee otherwise than by verbal or written evidence.

Various organisations, firms and individuals—too numerous to mention individually—have rendered valuable assistance to the Committee by replying to questionnaires, by answering specific inquiries or by supplying periodical information. The Committee are also indebted to a number of correspondents for comments on the Committee's published Surveys. Among those comments mention may be made of the following.

" Factors in Industrial and Commercial Efficiency."

The British United Shoe Machinery Co., Ltd., has addressed a letter to the Committee regarding the sentence on page 84 of the above-mentioned volume which states that " The Company refuses to sell its machines, over which it has a monopoly based on possession of patent rights, and it agrees to lease the machines only on conditions aiming at the suppression of the use of machines of other makes." The Company states in its letter (1) that considerably more than one half of the machines which it manufactures are sold outright to boot and shoe manufacturers, (2) that in pursuance of the provisions of the Patents and Designs Acts the Company invariably gives to its lessees the option of taking any such patented machines on a lease the terms of which must be reasonable and which must be free from restrictive conditions, (3) that in the case of restrictive leases the restrictive conditions cover only a minority of the machines required by manufacturers and are intended to ensure the combined use of a certain group of the Company's machines which are designed to work together. Further, the Company states that, since the publication of the Committee's volume, it has granted to each of its lessees the right to terminate at the end of each year all their restrictive leases and to return all the machines leased thereunder on payment of a sum set out in the agreement by way of reasonable compensation.

" Survey of Textile Industries."

(*a*) Representations have been received from Mr. G. H. Wood, Secretary of the Woollen and Worsted Trades Federation, regarding the factors used in the " Survey of Textile Industries " for converting into square yardage linear yards of woollen and worsted tissues exported in pre-war years (see pp. 193–4 of Survey) and of woollen and worsted tissues manufactured in pre-war years (see pp. 206 and 209 of Survey). As stated on pp. 194–5 of the Survey, the conversions were made on the assumption that exports of woollen tissues had an average width of 48 inches and of worsted tissues an average width of 45 inches ; but it was pointed out that the precise widths were a matter of dispute, it having been urged that the average width of woollen tissues exported was as much as 52½ inches and of worsted tissues 48¼ inches. It was added that acceptance of the latter figures would involve increasing by about 9 per cent. in the case of woollen tissues and 7 per cent. in the case of worsted tissues the figures of exports for 1909–13 as shown in the table on pp. 193–4.

Mr. Wood claims that the average widths of 52½ and 48¼ inches were applicable to exports (though not necessarily to the whole of the British production) in 1913 ; but that, as the proportion of wide cloths exported had been increasing, the averages in years preceding 1913 were generally somewhat less. The average widths of cloth as estimated by Mr. Wood, if accepted, would involve increasing the figures for 1909–13 in the table of exports by about 8 per cent. in the case of woollen tissues, and about 6 per cent. in the case of worsted tissues.

Mr. Wood also contends on similar grounds that the estimated square yardage of the output of woollen and worsted tissues (as given on pp. 206 and 209 of the " Survey of Textile Industries ") should be raised in respect of 1907 from 505 million square yards to a minimum of 520 million square yards (or by 3 per cent.) and in respect of 1912 from 550 million square yards to a minimum of 580 million square yards (or by 5½ per cent.).

These amendments would affect also the calculation on p. 209 of the volume, where the total quantities of woollen and worsted tissues available for consumption in this country in 1907, 1912 and 1924 are estimated by reference to the estimated production, exports and retained imports in those years. The result would be to raise the estimated total available for consumption from 352 million square yards to 361·5 million square yards in 1907 (or by 2·7 per cent.) and from 398 million square yards to 414·8 million square yards in 1912 (or by 4·2 per cent.), as compared with 252·3 millions in 1924.

(*b*) The number of woollen mule spindles in the wool textile industry in Japan was stated on page 268 of the "Survey" as 500,000, this figure being derived from the best information available. Further information which has been received through official sources since the "Survey" was published shows that the actual number is about 100,000.

"Survey of Metal Industries."

A letter dated 5th June, 1928, signed jointly by the Chairmen of the Scottish Ironmasters' Association and the Steel Makers' Association, together with Mr. Wallace Thornycroft, has been received regarding the statement on page 22 of the above mentioned volume that "In Scotland the blast furnaces . . . . . are all small, they are now dependent on foreign ores, and as Scotland has no good coking coal, the fuel used is pit coal." The letter states that "the reserves of coal in Scotland of the quality necessary to make metallurgical coke equal to Durham coke is of the order of 100 million tons. The present output of coke is round about 500,000 tons per year, part of which is exported in direct competition with Durham coke at about the same prices f.o.b. At present about one-third of the pig iron produced in Scotland is smelted with coke alone as the fuel, and the remainder with varying mixtures of coal and coke."

APPENDIX II.

(*See Page* 253.)

INCOME TAX ON RESEARCH AND WELFARE EXPENDITURE (Including Co-Partnership Schemes, Pension and Provident Funds).

(*Statement prepared by the Board of Inland Revenue showing position as in January*, 1929.)

1. This memorandum has been prepared by the Board of Inland Revenue with a view to indicating generally to the Committee the class of expenditure which, in their opinion, might properly be allowed as a deduction under the provisions of Income Tax law in computing business profits for purposes of Income Tax.

The assessment of Income Tax on business concerns is not, however, in the hands of the Board of Inland Revenue, but in those of

(*a*) the various bodies of local Commissioners of Income Tax, and

(*b*) the Special Commissioners of Income Tax

and a decision given, in the case of any taxpayer, by the appropriate body of Commissioners on the question whether a particular item of expenditure should be allowed as a deduction, is final and subject only to an appeal to the Courts on a point of law.

2. As regards the provisions of Income Tax law respecting the treatment of expenses such as those to which this memorandum relates, reference may be made to the two main general conditions governing this question, viz.—

(*a*) that no deduction shall be allowed in respect of expenses which are not wholly and exclusively laid out for the purposes of the business; and

(*b*) that no deduction shall be allowed in respect of expenditure of a capital nature.

There are also special statutory provisions relating to Superannuation Funds, to which provisions further reference is made in a later paragraph of this memorandum.

Expenditure on Research.

3. As regards expenditure on research, the Board of Inland Revenue do not object to a deduction being allowed subject to the conditions set out in the preceding paragraph. In order to qualify for allowance, the expenditure should, in their opinion, bear a sufficiently definite relation to the earning power of the business. No definite formula can be devised, but in general the Board consider it sufficient if the research work is directly connected with the subject matter of the trader's business and is calculated to achieve results affecting his profits in the reasonably near future. By reference to the test set out in paragraph 2 (*b*), capital expenditure—e.g. the initial cost of a laboratory—must be excluded from allowance.

4. If a trader, instead of employing research workers himself, contributes to an association engaged in research, his expenditure can be allowed subject to corresponding conditions. Thus, allowance would be due in respect of annual contributions to Research Associations established under the ægis of the Department of Scientific and Industrial Research. These bodies are intended to be associations of traders for the main purpose of carrying out their research work on a co-operative basis.

5. Contributions to research departments of Universities are often expended on scientific research of a more general character and the results, while of wide benefit, may not be of particular relevance to the trading prospects of

the contributor. Each case of the kind must be considered on its merits, in order to determine how close or remote is the connection between the research work and the trader's business.

Co-partnership Schemes.

6. The diversity in character of the various profit-sharing or co-partnership schemes that have come to the notice of the Board of Inland Revenue makes it difficult to formulate a general definition of the treatment of such schemes for Income Tax purposes.

Broadly, and subject to the proviso that the treatment of each case is governed by its own particular facts, the Income Tax position may be described as follows :—

(i) the bonus or share of profits which the employer has undertaken to distribute to the employees is treated as additional wages or remuneration and is allowed as an expense in computing the employer's profits for purposes of Income Tax assessment ;

(ii) the individual employees are chargeable to Income Tax in respect of the bonus or share of profits as additional wages or remuneration.

7. Where the co-partnership scheme, in the case of concerns carried on by Companies, takes the form wholly or partly of shareholdings by or on behalf of the employees, the employing Company can, under the appropriate provision of the law, pass on the burden of the Income Tax applicable to the dividends on the shares by deduction of the tax from the dividends. As, however, the employees would in the majority of cases be entitled to claim repayment from the Revenue of part or the whole of the tax deducted by the Company from the dividends, the Board are prepared to enter into an arrangement, subject to conditions, under which the Company does not deduct tax, but is given relief from tax in its assessment corresponding to the tax which it might have deducted ; the individual employees where liable are then assessed directly in respect of the dividends. Such arrangement is operative in a number of cases. (Whether the dividends are to be treated as earned or unearned income of the employee depends on the facts of each case).

Contributions to Superannuation and Other Funds.

8. Funds for the benefit of the employees of a business or their dependants may, in the main, be classified under the following heads :—

(i) *Superannuation Funds*—
which provide annuities to employees on retirement at a specified age or on becoming incapacitated at an earlier age ;

(ii) *Provident and Thrift Funds*—
which accumulate the contributions of the employer and employees, with interest, and disburse the accumulated sums on retirement or death of the employees ;

(iii) *Widows and Orphans Funds*—
which provide for immediate dependants of employees in the business ;

(iv) *Superannuation or Pension Schemes*—
where premiums are paid under insurance policies or annuity contracts for the benefit of employees on retirement or for provision for their dependants ;

(v) *Certain other funds* to which contributions are made by employers, e.g. funds to provide—
(*a*) sickness benefits to employees ;
(*b*) grants to employees or their immediate dependants under quasi-charitable conditions.

9. *Superannuation Funds.*—Special statutory provisions relating to these funds are laid down by Section 32 of the Finance Act, 1921, extracts from which are given below. Under that Section an allowance falls to be made in respect of contributions by an employer (or an employee) to a fund which satisfies the conditions set out in the section and has been approved by the Board of Inland Revenue. The section further provides for the exemption from tax of the investment income of an approved fund.

Extracts from Section 32, Finance Act, 1921.

(1) Subject to the provisions of this section and to any regulations made thereunder, exemption from income tax shall be allowed in respect of income derived from investments or deposits of a superannuation fund, and, subject as aforesaid, any sum paid by an employer or employed person by way of contribution towards a superannuation fund shall, in computing profits or gains for the purpose of an assessment to income tax under Case I or Case II of Schedule D, or under Schedule E, be allowed to be deducted as an expense incurred in the year in which the sum is paid :

Provided that—

(*a*) no allowance shall be made under the foregoing provision in respect of any contribution by an employed person which is not an ordinary annual contribution, and, where a contribution by an employer is not an ordinary annual contribution, it shall, for the purpose of the foregoing provision, be treated as the Commissioners may direct, either as an expense incurred in the year in which the sum is paid or as an expense to be spread over such period of years as the Commissioners think proper ; and

(*b*) no allowance shall be made under this section in respect of any payments in respect of which relief can be given under section thirty-two of the Income Tax Act, 1918.

* * * * * * *

(3) For the purposes of this section, the expression " superannuation fund " means, unless the context otherwise requires, a fund which is approved for those purposes, by the Commissioners, and, subject as hereinafter provided, the Commissioners shall not approve any fund unless it is shown to their satisfaction that—

(*a*) the fund is a fund bona fide established under irrevocable trusts in connection with some trade or undertaking carried on in the United Kingdom by a person residing therein ;

(*b*) the fund has for its sole purpose the provision of annuities for persons employed in the trade or undertaking either on retirement at a specified age or on becoming incapacitated at some earlier age ;

(*c*) the employer in the trade or undertaking is a contributor to the fund ;

(*d*) the fund is recognised by the employer and employed persons in the trade or undertaking ;

Provided that the Commissioners may, if they think fit, and subject to such conditions, if any, as they think proper to attach to the approval, approve a fund, or any part of a fund, as a superannuation fund for the purposes of this section—

(i) notwithstanding that the rules of the fund provide for the return in certain contingencies of contributions paid to the fund ; or

(ii) if the main purpose of the fund is the provision of such annuities as aforesaid, notwithstanding that such provision is not its sole purpose ; or

(iii) notwithstanding that the trade or undertaking in connection with which the fund is established is carried on only partly in the United Kingdom and by a person not residing therein.

10. *Provident Funds and Widows and Orphans Funds.*—The Board of Inland Revenue do not normally object to a deduction being allowed to an employer in respect of his ordinary annual contributions to such funds, whether they are annual contributions of a specified amount or are calculated on a definite basis by reference to the number of the members of a fund or the amount of their earnings or contributions.

11. *Superannuation or Pension Schemes.*—The Board would agree that the employer's regular payments of or towards the annual premiums should normally be allowed as deductions, provided—

(*a*) that the payments are made under a bona fide scheme for the benefit of a substantial body of his employees ;

(*b*) that where, as is usual, the employees have only a contingent right to benefits dependent upon completion of a specified period of service or attainment of a specified age, an undertaking is given by the employer to treat any sums which come back to him from forfeited surrender values, etc., as business receipts for Income Tax purposes.

12. *Other Funds for the benefit of Employees.*—Each case has to be considered on its merits, but in many cases an allowance falls to be made in respect of an employer's regular annual contributions.

Provision of means of Recreation and other Amenities for Employees.

13. Expenditure under this head falls to be regarded mainly by reference to the two conditions set out in paragraph 2 above. In general, the Board are prepared to agree that a deduction should be allowed in respect of sums expended by an employer on such objects as

(*a*) the maintenance of recreation grounds, canteens, ambulance rooms, rest rooms, lavatories, etc. ;

(*b*) the provision of overalls, caps, etc. ;

(*c*) salaries of welfare supervisors ;

(*d*) contributions to recreation schemes approved by the Juvenile Organisations Committee of the Board of Education in so far as they fall within the general principles set out above ;

(*e*) fees paid in respect of the attendance of young employees at technical and educational classes.

But no allowance could be made in respect of capital expenditure, such as the cost of purchase of a recreation ground or the expense of erecting or improving premises.

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